FORTHCOMING EXTENSION/MODIFICATION OF THE BUDGET ENFORCEMENT ACT

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BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

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WEDNESDAY, JUNE 27, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:15 a.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Thornberry, Collins, Watkins, Hoekstra, Gutknecht, Bass, Miller, Moore, McCarthy, Bentsen, Matheson, Spratt, Holt, Price, Capuano, Clayton, and Clement.

Chairman NUSSLE. Good morning. This is a full committee hearing regarding the Budget Enforcement Act and process. This hearing concerns questions of extending and revising some of the fundamental budget disciplines that have been in force since 1990.

The specific goal of this hearing includes the following items: understanding the function of these key disciplines, the caps on appropriations, as an example, the pay-as-you-go, or PAYGO rule for entitlements and tax legislation and how they relate to the overall budgetary levels in the budget resolution.

Appreciating the role of the caps and PAYGO, if played in controlling spending and eliminating chronic deficits would be another important function of this hearing.

Determining whether a consensus exists for extending the caps and PAYGO beyond the year 2002, when they are scheduled to expire.

Next would be reasserting the role of the Budget Committee in enforcing the budget resolution, a goal that this committee, I think in a bipartisan way, announced that it would be playing as part of this year's budget cycle.

Asserting the Budget Committee's role in matters under its jurisdiction, such as raising or extending the caps, and addressing the need to raise discretionary spending caps for fiscal year 2002 to accommodate the levels agreed to in the budget resolution so that we preclude massive automatic sequestration spending cuts.

The hearing will consist of three panels. The first panel, we have the director of the Office of Management and Budget, Mitch Daniels. He will be here to discuss the administration's view on whether to extend the budget disciplines that we have been enjoying and to what level to establish the cap as an example for 2002.

The second panel will be the very distinguished director of the Congressional Budget Office, Dan Crippen, who will present his views and CBO's views on the effectiveness of these budgetary disciplines.

And finally, we have the pleasure to invite back, and have before us a former chairman of the House Budget Committee, both current Member Marty Sabo from Minnesota and former chairman and Member, Leon Panetta, as well as Carol Cox Wait, who is the President for the Committee for a Responsible Federal Budget, and Kevin Hassett, who is the resident scholar for the American Enterprise Institute.

Before we begin on this hearing, I wanted to make reference to one other issue that has come up in the context, to some extent, of this hearing of budget enforcement and overall numbers. I have been listening with great interest, all of the newfound budgeteers to the United States Congress. We have many Members who have joined our enforcement posse over the last number of weeks and months, people who have not usually been quite as interested in whether or not we go over discretionary accounts and whether or not we dip into HI surpluses and whether or not we are spending more than we take in, both Members of the House of Representatives as well as Members of the other body.

It appears that everybody has a new score on exactly what the impact of this budget will be. Just about every news program you turn on, somebody has got a new baseline that they are promoting or a new assumption of what the budget will do.

All of this, of course, will occur in time, and we have both OMB and CBO here, who are the scorekeepers, to help us understand what those reviews will look like and the ramification of those reviews as we go on through the year. But let me suggest to you that this committee will hold additional hearings. This is not the only hearing on budget enforcement, and we will review, as I indicated earlier in the year, both a mid-session review as well as a year-end review of exactly where we are, and throughout the time I'm sure we'll continue to have back-of-the-napkin reviews of where everyone thinks we actually are.

But I believe that we have a budget in place. We ought to enforce that budget. We ought to take into consideration the constraints that are already in law and are part of that resolution as we move forward.

In that context, there has been one issue that has come up that is troubling to me, and that is the proposal that I have been reading about in the newspaper about defense. Let me suggest to you that I, along with a number of Members, were quite moved by what I thought was a very bold statement on the part of the President when he first came to Congress to make his priorities known to the country, and he suggested that strategy should come before funding, that we should make a top-to-bottom review of the Defense Department and the Pentagon and our military needs and defense for the future, as opposed to just submitting yet another budget that defends or funds the Defense of the past.

What is troubling is that what appears to be the new submission of $18 billion in authority and $12 billion in outlays appears to be more of the same—funding the Pentagon of the past, funding the Defense of the past, as opposed to using the top-to-bottom review that is apparently not completed yet, using that review and the retooling and the modernization in order to be the catalyst for a new budget submission. Instead, it appears to be yet another supplemental Defense request, and for that I am troubled.

I would hope that a couple of things follow this request. Number one is that we need to complete the review by the Pentagon. That is job one, according to the President. I agree. I believe that a majority in Congress agrees that the review needs to be completed by the Pentagon and that the review needs to precede any request; that that review needs to be submitted and that needs to be scored and it needs to be clearly understood, and then it needs to be reviewed by Congress, who holds the purse strings and makes the decision about what the spending ought to be.

That includes this committee, and I will just report to you that I do not intend to move on any request by the Pentagon until it is reviewed by this committee. I'm not going to pre-judge it, as much as that's possible to do. I will tell you to start with I am frustrated by what appears to be funding the Defense of the past, as opposed to modernization and reviewing and then funding the Defense of the future. But I will report to this committee that I don't intend to move until we have the opportunity to have the Secretary of Defense before this committee and the opportunity to review the submission and review the top-to-bottom modernization proposal that is presented.

If it is possible or if it is true that maybe the Secretary of Defense can't complete this—is it possible he has been stymied over the Defense Department? That's not only possible, it has happened many times in the past, and if that is true we need to know that. But if it is true that we're not going to have the review and we're just going to begin to operate with the Defense Department as we have in the past, then I would suggest to you that that is an opportunity lost and one that I felt was a top priority of the President and one that I agreed with.

With that, the reason that I bring that up is because it is important as we begin to discuss enforcing the budget, whether it is in setting new caps, whether it is riding the fences that we have established in this budget resolution—whether they were totally agreed to or not, they're fences that we need to protect, and this chairman intends to do what he can, even if it is a lonely ride to do just that—to enforce the budget as much as possible within the context and within the rules that we have. I look forward to anybody who wants to join in that effort.

With that, I would be happy to turn it over to my friend and colleague, Mr. Spratt.

Mr. SPRATT. Mr. Chairman, let me pick up where you left off and say that I wholeheartedly support the idea of bringing before this committee what we call "Function 050," the full Defense request. Defense, after all, is half of discretionary spending, and, frankly, I was a little concerned about the precedent of the language included in this year's budget resolution, which gives you unilateral authority to set the 050 number. I felt it was a function at least of the full committee to review, and I'm glad you believe that the committee should assert its jurisdiction and exercise some responsibility in this area. It needs to be done. No question about it.

I congratulate you also for calling the hearing today. I was here in 1983. I have been here for most of the years we've fought the battle of the budget and tried to subdue the deficit. About 1986 we decided that one way to get at the problem was to change the budget process. Gramm-Rudman-Hollings didn't work as well as its authors intended, but it, nevertheless, was a start down that road.

In 1990, when we did the Budget Summit with President Bush, we finally put into law the Budget Enforcement Act, the PAYGO rule, and the rules providing for discretionary spending caps and sequestration enforcement mechanisms.

I think the biggest compliment that anyone could want for those budget process changes came from one of the witnesses before our committee just a few weeks ago, Alan Greenspan, who admitted that he was cynical at the time that these process rules would come to anything, but he admitted now, acknowledged now, that they had been remarkably effective.

Indeed, they have helped us move the budget from a deficit in 1992 of $290 billion to a surplus this year of around $300 billion, a unified surplus, and that is nothing short of phenomenal. No question about it.

However, the rules that we wrote for an era of deficits don't necessarily apply in the same manner or have the same sanction in an era of surpluses; nevertheless, they still have a lot of utility, and we need to look at them and update them for the circumstances we find ourselves in now.

A discretionary spending ceiling is the one tool we've got as a committee to enforce some discipline on the overall amount of annually appropriated funding, and we should take it seriously. Our leadership should take it seriously. If they don't, what we do is almost for naught; because sequestration in the end gets pulled, it doesn't get enforced, everybody knows that.

So the first thing we've got to do is be realistic about the level at which we set discretionary spending. And I had a problem, frankly, with leaving 050 out of the mix this year when we passed our budget resolution because that is half of discretionary spending. I don't think it is a good idea to set the precedent putting plugs, place-holders, in the budget for discretionary items of that magnitude. We really should have tried to put in something that approached reality for that particular number.

Secondly, we need to look at sequestration. When we have realistic numbers and the Congress exceeds them, we need to do something. We need to have something there that will bring the numbers back to what we said they should be when we were looking at the budget in the aggregate.

The PAYGO rule has worked remarkably well, in addition to the discretionary spending caps, but we've gotten away from PAYGO. And I'd like to suggest that what we consider now is saying that when you take the calculation of the on-budget surplus, that should include exclusion of the Medicare HI trust fund surplus. I know we've got a difference of opinion there, but I think we ought to get the on-budget surplus down to a number that excludes the two major trust fund accounts, and then say that that amount can be allocated in reconciliation provisions by the Budget Committee, but beyond that, the PAYGO rule strictly applies. If the Congress seeks to do anything in the way of increasing entitlement benefits or decreasing taxes that exceeds the allocations made in the budget resolution, we should have some enforcement mechanism on the floor, and if it is somehow flouted or circumvented on the floor, we should have some sort of end-of-the-year, end-of-the-fiscal-year process for rectifying the actual budget, entitlements, and tax cuts, before we decree in the budget resolution.

These rules are good rules, and if we are going to have any kind of teeth in our budget process we need to take these rules and make them applicable to our circumstances today.

I look forward to what our witnesses have to testify to as we both sort of put our hand to the wheel and try to come up with some budget process rules that are both meaningful and effective in an era of surpluses.

Chairman NUSSLE. Thank you, Mr. Spratt.

If there is a difference of opinion on the Medicare HI trust fund, it is not with this Member and it's not with 400 other House Members or 400-plus House Members who voted for that lockbox and to make sure that that is set aside. And I think that needs to be a clear message that is sent to the other side of the Capitol and downtown, as well, because that is a fence that we intend to ride probably stronger and more often than any other fence.

With that, we welcome back to the committee the very honorable director of the Office of Management and Budget, and we appreciated all of the help and assistance and good work and partnership as we worked through the budget resolution time. Now we've got to make it stick, and that's what we're here to discuss today.

We welcome you back for your testimony on that subject and other thoughts that you would like to present, Mr. Daniels.

STATEMENT OF MITCHELL E. DANIELS, JR., DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. DANIELS. Thanks, Mr. Chairman and Congressman Spratt and other Members. I appreciate your hospitality.

Chairman NUSSLE. Before you begin, let me just ask unanimous consent that all Members be allowed to put a statement into the record at this point in time—without objection, so ordered—if there are those who would like to add on to what Mr. Spratt and I have been discussing.

Sorry to interrupt.

Mr. DANIELS. I'm mindful that we got off to a late start, and you do have a written submission from me, so in order to get almost immediately to your questions let me just paraphrase and summarize what that statement tries to say.

This is a hearing that I've looked forward to and I think all informed parties have from the beginning of the year. It has been clear from the outset, of course, that there would come a time when we'd have to talk about the Budget Enforcement Act and its caps, that they would need to be modernized.

The fact that they do is not to say that the Act has not served very well and should not be continued in some amended fashion. I quite agree with Congressman Spratt in his comments about that.

It was designed, and designed pretty well for an era of deficits, like I think almost all budget process mechanisms of the past. It was something of a blunt instrument, but I think this one deserves a lot or credit, and those who crafted it deserve a lot of credit for the successful outcome that Congressman Spratt reminded us of.

I don't think it would be too difficult to update it and to reshape it for the era of very large surpluses in which we now operate, and in my testimony I suggest, first of all, a starting point for future ceilings at the level of this year's resolution plus inflation, but probably more importantly would ask the committee to consider effecting the principle of a joint budget resolution for future budgets that the President and many other participants in the process have called for for a long time. It would afford us the opportunity for an annual, all-parties agreement about what appropriate levels are, and I think hence the likelihood of their enforcement without gymnastics.

I would cite in evidence of the practicality of this idea the so-called "summits" to which Congressman Spratt alluded, which in effect amounted to, I would say, joint budget resolutions, although they had at least nominally multi-year context to them.

So it seems to me an ideal time to put in place whatever new mechanisms we can agree on is in this season when we must update the caps to meet this year's budget needs and the new realities.

I look forward very, very much to working with the committee to do both those things.

Chairman NUSSLE. Thank you, Mr. Daniels.

[The prepared statement of Mitchell Daniels follows:]

PREPARED STATEMENT OF MITCHELL E. DANIELS, JR., DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. Chairman, Representative Spratt, Members of the Committee, I am pleased to be here this morning to discuss the possible extension of the Budget Enforcement Act of 1990.

I will make a short statement and then I would be pleased to answer any questions that you might have.

A MORE ORDERLY AND RESPONSIBLE BUDGET PROCESS

I want to compliment the Chairman and the Congress for the progress we've made this year. You moved quickly to adopt a budget resolution that funds the nation's priorities and restrains the growth in spending. Next, the House passed a supplemental appropriations bill that stays within the BEA's spending cap for 2001. Unlike past supplementals, this legislation has not become a vehicle for questionable spending or a method of evading the BEA limits. These successes demonstrate that the Act does work, and its basic mechanisms ought to be extended and continued. Together we have demonstrated that the President's commitment to a more orderly and responsible budget process can be achieved.

THE BUDGET ENFORCEMENT ACT

CURRENT STATUS: CAPS AND PAYGO

The Administration believes we must moderate the growth in discretionary spending by staying within the $661 billion level the Congress, and the Administration, agreed to, plus the $18 billion in additional funding the President will request this week for the Department of Defense. In order to ensure that this absolutely necessary funding for defense is not diverted to other programs in 2002, we propose to have a separate category for defense with a cap of $344 billion. This funding would cover all programs within the National Defense Budget Function.

The current statutory cap for FY 2002, under the BEA, is $552.8 billion. Assuming Congress appropriates funds consistent with the Budget Resolution and the President's Defense Amendment, the additional discretionary spending would trigger a sequester of roughly $127 billion.

In addition, OMB's current assessments show that a deficit of $121.2 billion exists on the "paygo" scorecard. This paygo deficit is due to legislation enacted in previous years, as well the recent enactment of tax relief. Like the discretionary cap, if the paygo requirement is not waived or modified, OMB would be required to issue a sequester of mandatory programs such as Medicare, Agriculture, and the Student Loan Program.

Clearly, the BEA will have to be amended. In fact, the current discretionary caps have been obsolete for at least the last 2 years, and neither the Administration nor the Congress expected to reduce mandatory programs when we considered the tax bill this Spring, or even at the beginning of the 107th Congress.

MODERNIZING THE ACT

The need for both of these changes does not mean the BEA is not working. In fact, I believe the Act has been successful in transforming the Federal budget process. It has made a significant contribution to today's large budget surpluses. However, the machinery associated with the current BEA should be changed to reflect the era of surpluses that the Act has helped to create.

Currently, the BEA's requirements force us to sequester Federal spending when legislative provisions lead to a reduction in the size of the Government's surplus. However, the BEA was developed in order to constrain increased spending and discourage tax reductions in a time of deficits. Therefore, the Administration believes that the BEA should be modernized in order to guide budget decisions in an era of surplus.

The Administration would like to work with the Budget Committees and the Congress to find a more appropriate basis from which to measure BEA requirements. One potential position that we believe could be supported in a broad, bipartisan fashion, would be to set a goal of ensuring on-budget balance. One could see this approach as "protecting the Social Security Trust Fund Surplus."

Once this minimum threshold is set, new discretionary spending "caps" and "paygo" requirements could be determined on an annual basis through the vehicle of a Joint Budget Resolution. In fact, if one considers the various changes to the BEA since 1990, it could be argued that the Executive Branch and the Legislative Branch have, from time to time, entered into agreements that amounted to de facto joint budget resolutions. I refer here to the Executive Legislative Summit agreements of 1990, 1993, and 1997. We should consider regularizing this step as an annual process.

ADVANCE APPROPRIATIONS AND EMERGENCY SPENDING

If we can agree on the need for the discipline and constraint that the BEA provides, we should agree to also end the practices that have been used to circumvent the limits it sets. For example, we must stop using advance appropriations to shift budget authority from 1 year to the next, just to avoid the cap for the budget year. In addition, we must work together to limit the illegitimate use of the emergency designation.

CONCLUSION

I look forward to working with the Committee and Congress to ensure that we enforce the 2002 and future budgets, and that we fashion new mechanisms that continue the Congress' recent fiscal success in the new era of surpluses.

Mr. Chairman, that concludes my statement. I would be happy to answer any of the Committees' questions.

Chairman NUSSLE. In the President's budget submission, the President called for the extension of both the discretionary caps and the PAYGO requirements, and it appears that that is consistent with your advice here today and that that continues to be the position of the administration.

If so, at what level and for how long would be my first question. At what level would you set the 2002 cap, and for how long would you advise that we should consider extending the caps? Would it be a 1-year basis, 5-year basis, etc.?

Mr. DANIELS. I would suggest at least as a starting point that the 2002 caps be set at the level now that reflects the President's full recommendations, approximately $679 billion. That's the figure in the budget resolution plus the amendment that will be submitted later today for Defense.

I would further propose that, at least in this year, the amount recommended for 050 be treated separately or protected by so-called "firewall" so that the necessary repair work, which is what that amendment really reflects, can be carried out and those dollars not siphoned off to other purposes.

Then, going forward, I would suggest that that level inflated be our—that is to say, at a baseline extension of that level be our starting point, but that, in view of our ever-changing need, in view of the projected very, very large reserve, uncommitted reserve that we see in the 10-year horizon, that a joint budget resolution and an annual setting of ceilings, which could be at a level above or below, I suppose, this baseline extension I talked about would be a good way to approach it and a good place to start.

Chairman NUSSLE. So, in other words, just so I understand what is happening here, the administration is going to submit this $18 billion as the request, as the Defense request, as the amendment to the budget for 2002?

Mr. DANIELS. Yes, sir.

Chairman NUSSLE. And that's going to be done today?

Mr. DANIELS. I anticipate this afternoon.

Chairman NUSSLE. And that's through the OMB is going to be submitting that?

Mr. DANIELS. Yes, working with the Defense Department.

Chairman NUSSLE. Are they done with the review?

Mr. DANIELS. No, sir.

Chairman NUSSLE. When will the review be completed?

Mr. DANIELS. It's a question for Secretary Rumsfeld, but it is certainly progressing. He has reported at great length on an interim basis to the President, and in recent weeks begun to discuss this, of course, with Members of Congress and in public forums, but he has not announced, as far as I know, a completion date yet.

Chairman NUSSLE. Is it imminent? I mean, do we have any clue at all? We're talking a month? Six months? A year? Is there any time frame? I mean, he said 6 months, and I understand this is a big job. Six months may have been very unrealistic. Maybe he needs an extension. If he needs an extension, he needs an extension. It is obviously very complicated. I'm amazed he said he could do it in 6 months.

But, having said that, that's what he said, and if, in fact, it is going to be more than 6 months, we need to know that.

I appreciate the fact that you would turn me over to Secretary Rumsfeld, but he has been kind of hard to find, and I would hope that he makes himself a little bit more available to Capitol Hill to answer some of those questions, because these are important questions.

Do you anticipate, based on what you know, that there will be an additional submission for Defense at the time the review is done, in addition to the $18 billion that is being requested as part of this amendment?

Mr. DANIELS. Mr. Chairman, first of all, I don't purport to speak for the Secretary. I'll try to reflect what I understand the situation to be, but I would refer you to him for definitive answers.

First of all, I think we should all understand the immensity of the job he has been given—I truly believe the hardest job the President has given anyone. I'm sure all Members understand how completely absorbed he has been, with very little help, incidentally—that is to say, almost no other appointed officers in place until the last two or 3 weeks—to come to grips with this task.

It is my understanding that he does plan to complete the necessary long-term review, to discuss it very openly with Congress and the public, and to embody its principle implications in the 2003 submission, which is just a few months ahead of us.

Chairman NUSSLE. Well, I have to say I am extremely disappointed by this. Last October we passed an appropriation for Defense. It was obviously wrong because it was complained about and rebudgeted in February. We passed a supplemental, I don't know, 3 weeks ago, and now all of the sudden there is a new supplemental request of $18 billion to next year's budget. And then, on top of that, after the review is completed, whenever that is completed, there will be yet another request.

We're going to have a very difficult time—forget PAYGO, forget caps, forget everything else—we're going to have a very difficult time holding anybody back within any fences if this is the way that the requests are going to come down with regard to Defense.

I am very sympathetic and understanding, as I said, that it may have been an unrealistic and an implausible task to complete a review of the Pentagon within 6 months when your own appointees have not even been allowed to go through the Senate for confirmation. It may be an unbelievable task. But then I think a different understanding has to come out of the administration as exactly what the timeline is, because as it stands right now I can't support amending the budget for $18 billion without the review being completed or without a timeline to understand when the review will be completed and an understanding of what the impact will be on the out years of the budget.

Based on the requests we have right now—and here I am going to the very back of the napkin I was talking about just a little bit ago that I complained other people do, but, based on the back of my napkin, that doesn't fit. And if that's the case, then I think it is going to have a very difficult time gaining any kind of support on Capitol Hill.

We are very willing to support our young men and women in uniform and make sure that we are ready to defend this country, and we put a lot of money into that, and there isn't a person who stands unwilling or unready to do that in any party of any stripe, I don't care what ideology they call them or where they come from, but there is also a responsible way to do it, and I would just suggest to you that, as I see it right now, this is not only not the ideal way to do it, but this is getting very close to an irresponsible way to do it, and I would hope that the Secretary of the Defense Department would be willing to come up here and explain what exactly is going on here.

Mr. Spratt.

Mr. DANIELS. If I may, Mr. Chairman, just quickly, and without taking issue with your very legitimate concerns, let me just say a word about responsibility and the process, because I do think it explains in part the approach that has been taken here.

The supplemental that was offered was limited very strictly to the needs of this year, the remaining months of this year. Many were surprised it was as small as it was, but that's the reason. We tried very scrupulously not to exceed what we thought were the appropriate bounds of a supplemental for the year 2001.

With regard to the amendment for 2002, I would simply say that the Secretary, when you see him, will, I think, explain to you in detail that the needs and the damage after years of neglect were even more severe than probably the Nation understood, and I think he will be prepared to defend every penny of that submission—probably more if he had the opportunity—in terms of catching up just the basics of defense.

The vast majority of this amendment does go to people, quality of life issues, pay, health care, housing, right behind that simple readiness—basic readiness that will be necessary regardless of strategy or regardless of what the review might say. That's the vast majority of this request.

And I would simply conclude by saying that there's a very sincere effort here to get to an honest plateau, an honest level of defense and break out finally of the cycle of sort of conscious underfunding necessitating an annual supplemental in the spring with the attendant excesses that sometimes went along with that.

So I do appreciate what you're saying, but I just want to explain from the administration's side and perspective that it is an attempt to get sort of an honest budgeting level for Defense, and I hope you can see it as a one-time item in that way.

Chairman NUSSLE. Well, all I would report to you is that in my 10 years of being here I have been told that there were one-time items just about every one of those years, number one.

Number two, at a time of relative peace, I believe it is a valuable motivation to say no to this Pentagon and say, "Get back there and get your work done. Do the top-to-bottom review. And if all these guys with stars and bars want to stand in the way of that motivation, they're standing in the way of making sure that the funding gets done."

I think we've got to start clamping down. The President took the lead. I support his lead. And that lead was, "No more money until we get a strategy."

That's my opinion.

Mr. Spratt.

Mr. SPRATT. Mr. Daniels, I think the chairman's problem starts with the beginning of this year. We decided between us that we would try to reestablish the institutional role of this committee and at least have hearings on major elements of the budget from major departments of the Executive Branch.

We were partly thwarted because your budget was late, for understandable reasons. I'm not criticizing you. You are a new administration. It always comes late in those circumstances. But we at least wanted to hear from DOD for a couple of reasons. It is half of discretionary spending. And we knew there was a big plus up-coming in addition to this review. They were unwilling to come over here and testify at all.

Consequently, we had a place-holder, a plug number in the budget for defense—$321 billion, I think it was. And we all knew that was not a real number, but we went out there and passed the budget resolution with that place-holder in the budget, and then we adopted substantial tax cuts that basically take the discretionary spending number as an established number when, in truth, it is only half complete. We don't have the defense number yet.

Now we've got a number that kind of springs up from almost nowhere. I'm not quite sure where it comes from.

But what I'm surprised about is that it is $18 billion. I thought it was going to be more.

We had breakfast with Secretary Rumsfeld. He asked the Budget principles to have breakfast with him, and Senator Domenici and Senator Conrad and I—Mr. Nussle was unable to go—had breakfast with him I believe last Wednesday morning. At that breakfast I showed him my cocktail napkin. [Laughter.]

And I said, "We change these numbers every 3 days, and here's the latest version of it. I gave you one before, and this one is 10 days out of date." So I said, "Show me how you are going to fit what I have been hearing is your Defense number into this budget after the tax cuts."

In particular, I said, "Look at the line down there where we have assumed that what you'll be requesting is $20 billion the first year, and it will staircase upwards $5 billion each year until it reaches $50 billion, and after that it will increase with inflation."

As I was explaining that, he started shaking his head pretty vigorously and saying, "Oh, no, you are too low. You are too low."

So our assumption, hypothesis, that he'd come in at $20 billion, he was vigorously telling us as recently as a week ago was way too low.

Did the Pentagon ask for substantially more? We've heard it was close to $40 billion, which you shaved to $18.4 billion. Has there been a tug-of-war between OMB and the Pentagon over the number for next year?

Mr. DANIELS. No, sir. There has been an ongoing dialogue, and——

[Laughter.]

Mr. SPRATT. At least you didn't invoke Executive privilege. [Laughter.]

Mr. DANIELS. Well, give me a minute.

No, these are very tough decisions, and I think back to the chairman's comments, too. There are very legitimate questions about the timing at which any increases ought to be asked for and which ought to await a strategic rationale and which can be characterized as immediate and necessary regardless of strategy, and I guess this is the way finally. The President, of course, makes all such decisions, and this is finally where he saw the right breakpoint.

As I indicated before, the request for the supplemental this year, we think every penny clearly is needed for basic operations of this year, and, likewise, with the amendment, the details of which are coming today, that these are basic needs of the Defense Department.

Subsequent requests will be justified by a strategic outlook that will be fully vetted with experts like you.

Mr. SPRATT. Well, we really won't have that until 2003, until the budget request for 2003, as I understand Mr. Rumsfeld.

Mr. DANIELS. Well, I do believe there will be a full airing of the concepts and rationales that he wants to advocate for well in advance and in the run-up to the actual submission, which I assure you will be on time in the next budget year.

Mr. SPRATT. In the next budget year for 2003. Isn't that February of——

Mr. DANIELS. Well, that's right, but, of course, this fall there is the quadrennial review.

Mr. SPRATT. Yes.

Mr. DANIELS. Which will also shed, I think, a lot of light on the Secretary's thinking and on his proposal.

Mr. SPRATT. Let me ask you this: have you read the language—I'm sure you have—in the budget resolution which gives the chairman the authority to set the 050 function allocation?

Mr. DANIELS. Yes, sir.

Mr. SPRATT. As I recall that language, it says that he can set it up to the amount of the on-budget surplus less the HI trust fund surplus. And as I look at the bottom line that comes out of our analysis, because of the timing shift in payment, tax payments, corporate tax payments from September 15th to October 1, 2002, we may be able to support the $18.4 billion request; but there's an outlay tail equal probably to at least two-thirds of that, at least $6 or $7 billion or more of that. And in the next year, 2003, the outlays are already negative by our calculation if you back out the HI trust fund. Consequently, I'm not sure that he can fit it into the budget if he has to make it fit with 2003 and 2004, as well.

Have you taken note of that? Could you furnish for the record the outlay implications of the $18.4 billion, please, sir?

Mr. DANIELS. Yes. They will be part of the submission this afternoon. But I think you have it on the right order of magnitude.

And I think we all can look forward to a spirited set of discussions and negotiations about the kind of spending or restraint that will be necessary to preserve the large surpluses that we enjoy today. It can be done. It's going to be difficult, as it always is.

Mr. SPRATT. Let me turn to what we had the hearing about, and that is—all of this is relevant to it, because we're talking about fixing a realistic number for discretionary spending. Once you fit Defense in, if you assume it is recurring, what is your rate of increase for discretionary spending this year, in 2002, and in the next 10 years?

Mr. DANIELS. About 7 percent for this year, and we simply for the moment use the baseline increase beyond. It would be about 7 percent.

Mr. SPRATT. Well, it would be more than baseline, wouldn't it, because——

Mr. DANIELS. I'm sorry, 7 percent for 2002.

Mr. SPRATT. OK. Let me ask you about the PAYGO rule. Suppose for PAYGO purposes only, just to avoid a broader controversy, we define the available surplus to mean the unified surplus less the HI trust fund and less the Social Security trust fund, and we then provided that this committee, the Budget Committee, can allocate up to that full amount for tax cuts or for entitlement benefit increases, and then anything beyond that would have to be offset, strict PAYGO application, and if a bill with tax cuts exceeding that amount came to the floor or if a bill with entitlement benefit increases exceeding that amount came to the floor it would be subject to a rule of order—which doesn't mean much in the House. It does in the Senate—and if it wasn't resolved by the end of the fiscal year there would be sequestration, common pattern. Would you have a problem with that at OMB if we defined it—for PAYGO purposes, alone, if we defined the available surplus in that manner?

Mr. DANIELS. Well, we would be happy to work with you on a mechanism like that. I should remind the committee, just for the record, that the administration has never taken the view that HI runs a surplus. This year the all-end facts of life in Medicare are that in 2002 will spend $50 billion more than it takes in, and close to $650 billion more over the 10-year period. That's just the difference in perspective we recognize that many do not share.

But I wouldn't let that point of view, which we hold to very strongly, necessarily foreclose a system like the one you're talking about.

Mr. SPRATT. Let me ask you this: when we wrote these rules some time ago, we tried to give ourselves a few breaks. We were desperate for daylight. The deficit never got better. It rose, it rose, it rose. We had Gramm-Rudman-Hollings. It went down for a year and then went back up again. And so we put a few "gimmes" in the package. We said, "If a tax concession—exemption, deduction, preference, credit, whatever—expires, it is time limited and expires, then you are to assume that it won't be renewed, CBO. At least it is assumed for forecasting purposes that it won't be renewed."

This helped us a little bit, even though we all knew that these were very popular tax concessions. They had big constituencies behind them, and historically they had always been renewed. We said you can assume they won't be renewed.

Do you think we ought to take a look at that in light of the fact that we're in a different era now and they are likely to be renewed when they come up?

And, in particular, the sunsets in this bill—when you put a sunset in the tax bill like the sunsets that we are looking at today in the last tax bill we passed, which are unrealistic—we all know that when those sunset dates approach they will be disposed of—don't you think we ought to have some sort of reality built into the budget process where we can say to our forecasters, "Tax cuts that are manifestly going to be renewed ought to be calculated as renewed upon the date of expiration"?

Mr. DANIELS. In general, Congressman, I do agree that it would be well to eliminate wherever, and we have suggested many places in the current budget process where there are incentives or mechanisms designed for evasions, and I think it would be better to move toward full transparency.

I'm not sure how one decides that a given tax provision certainly will be extended as opposed to probably will be or manifestly.

There will be some definitional issues around that, I suppose. But I share your view that we ought to, from top to bottom of the budget process, strive for transparency and credibility and accuracy.

Mr. SPRATT. Let me ask you one other question that addresses a budget process change that we've not even considered before, and that is the treatment of interest.

Right now, if interest is paid out of the general fund to a trust fund, if it is an on-budget trust fund, it is booked as an outlay and then booked as a receipt and so it is a wash. When you have a unified budget surplus which treats the Social Security Administration's trust fund as part of the unified budget, you have the same phenomenon. As a consequence, you can look at CBO's charts that run you way out in time and you see the statutory debt mostly held by the trust funds rising to about $7 trillion, but net interest payable dropping from $220-something billion to $20 or $30 billion—a nominal number.

But, outside of looking at those numbers, they must ask, "How can you have $7 trillion in statutory debt and only $25 billion, $30 billion, $40 billion in interest payable on it?"

We're taking money out of the general fund, which means it belongs to everybody, and putting it in a trust fund, which means it now belongs to a select, defined group—less than everybody. Don't you think we ought to be reconsidering, particularly as these interest payments become a bigger and bigger item, how we treat interest payments in the calculation of the budget?

Mr. DANIELS. Well, perhaps so. I think the confusion you talk about is a common and understandable one, and many Members I know feel as you do—that we ought to emphasize simply the total outstanding debt.

I think both calculations have very important value.

Mr. SPRATT. I would agree with you about that.

Mr. DANIELS. Yes.

Mr. SPRATT. The reason for doing it the way we do it now is not just that we were cutting ourselves a special concession, but this shows the Federal Government on the one hand and the rest of the world on the other hand. It shows the budget how it interacts with the rest of the world, and the rest of it is treated as an internal transaction.

Mr. DANIELS. Right.

Mr. SPRATT. And we need to know that, as well. But at the same time the mounting interest for this statutory debt is an indication of our liabilities that are coming due just beyond the horizon of this budget, and we're sort of lulled into complacency because we haven't factored into our budget the debts that are coming due for Social Security and Medicare when the Baby Boomers retire.

Mr. DANIELS. I quite agree. The statutory debt is probably the single most powerful reminder, as long as we don't lose sight of it, of the need for reform and the extent of the liabilities that await us.

Mr. SPRATT. Well, if we get into the drafting of the legislation, we might want to look at that, at least of an alternative way of stating the budget so that you can see truly what the debt obligations of the country are.

Mr. DANIELS. All right, sir.

Mr. SPRATT. Thank you very much for your testimony.

Mr. DANIELS. Sure.

Mr. THORNBERRY [assuming Chair]. Mr. Daniels, as you know, we have a vote underway. The chairman went to vote and is coming back, and since I was next in line he asked me to sit in for a few moments.

I'm tempted to get back into the discussion about Defense. I'll just say that I think we all have to remember that it is very, very difficult to break out of the rut which we had been in of just doing more of the same thing. And, as a practical matter, it is going to be the 2003 budget before we can do that, and we have a chance to discuss the best ways to do it between here and there.

But I think the other key point is that a key part of the problem in breaking out of the rut is on this side of the Potomac, and we can see that by looking at the newspapers any day.

I want to change to a little different topic. We talk about budget discipline, and there are a couple of bills that have a lot of support up here, and I would like to get your views on how they might affect budget discipline.

One is the co-called "CARA Bill," which would take royalty interest that the United States gets, primarily from oil and gas production, and turn it into an entitlement for land acquisition and other conservation programs.

The other one, of course, is a railroad retirement bill, which passed by an overwhelming vote last year.

Those are two bills, it seems to me, that have a pretty significant impact as we look ahead to budgets, and I'd like to get your thoughts on how they affect budget discipline.

Mr. DANIELS. My thoughts are that each of these bills suffers from substantive defects and that each would have an unacceptable impact on budget discipline in the short term.

In the case of CARA, I think it needs to be rethought whether we should create yet another entitlement or expand one for this particular purpose.

In the case of railroad retirement, the bill, as constructed, offers, I think, the unwise, unacceptable prospect of the Federal Government investing in private securities, which is, I think, a constant temptation that should be resisted wherever it arises.

And in both cases the budget impact, budget implications of the proposals, as they stand, I think will be found to be by the Congress and all of us as simply untenable, especially given the narrowness of the straits that this discussion this morning has pointed out we're headed into as we seek to protect the on-budget surplus and perhaps more.

Mr. THORNBERRY. Well, particularly on CARA, one of the arguments one hears is that, after all, we appropriated $540 million, I think, for land acquisition in the current fiscal year, and that the President's request includes essentially full funding of the land and water conservation fund, and conservation is such an important issue that we're talking roughly the same amount of money. Why not turn it into an entitlement?

Mr. DANIELS. I'll express a personal view here, but one I don't think I am unique in holding, Congressman Thornberry, that one of the problems we ought to all be wrestling with in general is the steady, I would say, downhill slide of dollars from the discretionary to the so-called “mandatory side” of the Federal budget—two-thirds of the budget now on auto pilot, and safe and secure from annual scrutiny and from the ability of the Nation to make updated decisions about priorities. And I think a starting point for an issue like this is to challenge it on that basis.

Mr. THORNBERRY. Thank you.

The gentleman from Texas, Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

Mr. Daniels, I have a number of questions for you on the topic before us, but I have some local issues I have interest in, and since you are up here I think I will take advantage of your time right now——

Mr. DANIELS. All right.

Mr. BENTSEN [continuing]. and if I get another chance I'll try and get to the BEA questions.

As you know, we've had this storm in Texas and it has affected Louisiana and a number of other States, and I first of all wanted to thank you for your letter to the House Appropriations Committee opposing the rescission, the proposed rescission, and I hope the administration will hold firm on that position.

Beyond that, we are becoming increasingly convinced, and I think FEMA is becoming increasingly convinced that the damage in the greater Houston area will far exceed the amount of dollars that FEMA has on hand, rescission or no rescission, and will require some supplemental funding for the current fiscal year and perhaps beyond that.

I know you have had some pretty distinct views with respect to emergency spending and its use or abuse, but I would like to get your position or what the administration's position will be, what you think it will be with respect to supplemental spending for disaster relief and reconstruction as it might relate to Allison.

We look at the Northridge as perhaps the closest comparison, where billions of dollars have had to be spent, and we think that will be the case here, because the damages are looking like $4 or $5 billion.

In addition, I would like to ask what will be the administration's position, do you think, or what steps will you take to review to the cost share between the Federal Government and the State government or the pass-through to the local nonprofit entity of the public disaster assistance? It's a 75/25 split. The President has the authority to waive to a 90/10. I think a very strong case can be made for waiver, and, in fact, I sent a letter to the President last week that the per capita disaster level meets the ratio used by FEMA to allow for such a waiver, and have you all considered what your procedure will be to look at that?

Finally, with respect to OMB's policy toward water projects, I know, as you know, the President's budget proposed a 14 percent cut in Corps of Engineers construction projects. Whether Congress abides by that or not we shall see. But in that the administration proposed defining some projects as new starts and other projects as ongoing, and thus pushing new starts back.

Has the administration determined what projects they consider new starts, or is that left up with the Corps?

Mr. DANIELS. Well, thank you, Congressman Bentsen.

Mr. BENTSEN. First, let me say that at the President's direction we are trying to stay in very close touch with the events in Texas and elsewhere in the aftermath of the storm. I talk to the FEMA administrator on a daily basis. I talked to him this morning right before I came over here.

It is very important, and we welcome your support, for preserving the full amount of FEMA funding that was proposed for dealing with such emergencies, and $389 million that some had suggested for rescission we think was a bad idea and we will resist it and I trust prevail on that.

Mr. DANIELS. As you know, we released $500 million Monday morning when the President signed that release. That leaves $583 million available to Administrator Albaugh. He believes this is enough, the combined total is enough for the next several weeks, at least, but he does think it is highly possible that more will be needed, and he and I have been talking about that, as I say, as early as this morning.

It is certainly true that we do seek to preserve emergency funding for true emergencies but this is one by anybody's definition, and if the needs outrun the already-appropriated amount of money, then we will certainly seek, perhaps sooner rather than later, authority for more.

I don't have an answer for you this morning on the degree of the match. There is a good argument to be made and we'll have a look at it, but these are large dollars available and we've got to be very careful before we make these definitions too elastic.

And on the Corps projects, you say "OMB policy." OMB doesn't have a policy. I always say I put my personal opinions in a blind trust along with my assets when I took this job. The President's policy is to pause in what has been extremely rapid increase in new starts by the Corps. We have a gigantic backlog of over $20 billion simply to complete the projects already ongoing, and if you count the ones on the drawing board, all of which have been announced, I guess, as new starts already, we're in the $40 billion range.

So we do think it is appropriate to be cautious about starting yet new ones when there is enormous backlog to work on, but we recognize that many in Congress have a different view, and the bill that we are probably going to see this year will take a very different view than the one that the President proposed.

Mr. BENTSEN. Well, I know my time is up, but I just want to say—and you might have to provide this for the record on behalf of the administration—is new start determined by authorization or is it determined by a funding stream, because you have projects like the Brays project in Houston, the Clear Creek project—both scenes of a great deal of flooding—that have been authorized for 20, 30, 40 years, that have been going through the planning and design stage. Some are just at the front end, but there is a question as to whether or not they might be deemed as new start.

Mr. DANIELS. I see. I'd like to go back and check. I want to make sure. We'll give you a precise answer for the record.

There's a good chance that those are part of what we would think of as the backlog that we would like to accelerate by limiting spending on totally new projects, but let me go back and ascertain which category those fit into.

Mr. BENTSEN. Thank you.

[The information referred to follows:]

DIRECTOR DANIELS' RESPONSE TO QUESTION POSED BY MR. BENTSEN

I want to take this opportunity to respond to some of the issues you raised during my appearance before the Budget Committee this past week. In particular, I would like to outline the administration's views on the Corps of Engineers Budget for Fiscal Year 2002.

As the OMB developed the President's Budget for Fiscal Year 2002, we worked to give a very subjective determination the most objective standard possible. Specifically, we attempted to propose funding for Corps' projects based upon their benefits and by focusing primarily on the large number of authorized projects that are already in progress. We believe it is important to focus funding in this way because "new starts," particularly new construction starts, usually involve a commitment of hundreds of millions, and can significantly affect the resources available for other projects within the Corps.

The administration considers a reconnaissance study, pre-construction engineering and design work receiving study appropriations for the first time, or a new project receiving construction appropriations for the first time to be a "new start." In addition, the administration treats study and project resumption, newly funded separable elements of a project, deficiency correction projects, major rehabilitation projects, and reconstruction projects as "new starts."

With respect to specific construction projects in the Houston area, and the Harris County Flood Control District, the President's budget requested funds for Bray's Bayou, Clear Creek, and Sims Bayou. We do not consider any of these projects to be "new starts."

If you have questions or concerns about any other specific projects, please do not hesitate to contact my office, or the OMB Legislative Affairs office.

Mr. BENTSEN. Thank you, Mr. Chairman.

Mr. NUSSLE [resuming Chair]. Mr. Bass.

Mr. BASS. Thank you, Mr. Chairman.

Thank you, Mr. Daniels, for being here today.

Perhaps I am following up on a more general basis on what Mr. Spratt was discussing. I'm concerned about the overall budget picture for the next two or 3 years. Our budget which we passed incorporates a 4 percent spending increase in this fiscal year, and then in subsequent fiscal years a reduction to 3 percent. The Congress is looking, I believe, at the possibility of considering at least four more tax bills—energy, charitable contributions, business tax cuts tied to a minimum wage increase, and the extenders.

There are at least three different major—getting beyond Medicare, prescription drug, but others—I think there is an issue involving concurrent pay for veterans, which is coming down whether we like it or not; special ed funding increases, which are already incorporated in the Senate education bill, which will come to the House. You talked about an $18 billion increase in Defense spending in—I believe you were talking about fiscal year 2002, the budget cycle we are working on now. And, as we discussed, tails go out beyond that.

Even taking the HI trust fund out of the picture, are we going to have an operating deficit to consider for fiscal year 2003?

Mr. DANIELS. No, sir. I think that we have to start by reminding ourselves that, even in a time of economic slow-down, the Nation is running a very, very large surplus. We're here and we will be back here repeatedly talking about how big a surplus, but it starts with this year $150 to $160 billion of Social Security surplus, and that will rise more like $170 billion next year, and then we're talking about how much on top of that, how much in the on-budget category—will it be as much as the part A or how much more, and so forth.

Now, I think that your cautions are all very well placed. We need to, on the one hand, recognize that over the 10-year time horizon we have hundreds of billions of dollars uncommitted at this point, and I think even after some modulation in the spring forecast I would guess that both CBO and OMB will project some reduction in the 5.6 trillion that we saw at that time, but not dramatic.

Even after that, there will be hundreds of billions of dollars left for decision, and it is certainly possible to—I can draw you a napkin where the Nation runs through all that money, but it is hardly likely that will happen, and I remain fully convinced that we can make wise choices, add the spending where it is essential, and yet preserve the record of success that this committee has had so much to do with in keeping an on-budget balance, and therefore a very large surplus year on year.

Mr. BASS. Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman.

Mr. Chairman, I really don't have any questions, but I guess I want to add my voice to the concerns of the current and future budgeting issues.

I'm new to this committee but I'm not new to budgeting, and it is a legitimate thing at all times for bodies who are elected officials and appointed officials to debate how much we should raise, who should pay for that, and how that money should be spent once it's raised. Those are legitimate issues of debate that this committee has gone through, the administration has participated in, and we have drawn some conclusions, many of which I disagree with, but so be it. It is a fair process.

But I was under the conclusion—and I'm glad to hear what I'm hearing today at this committee, from the chairman and from everybody else—that none of us want to go back into a situation where we are producing deficits in this time.

I'm glad to hear that you don't think we're going to hit it, but I know you are hearing the voices and the concerns of not just members of your own party but also neutral observers across the board, and I wouldn't even try to put you in a position of somehow changing what you just said. I'll accept it and I believe that you believe it, but pretty much no one else does. We all think that we are heading toward spending too much money, considering the choices we already made.

Now, I make no bones about it, no apologies for it—I thought the tax cut was too big, and that's why I thought it was too big. I think we have spending priorities that we need to meet. But I lost, fair point.

I guess I would also like to make a real clear commentary, as far as I am concerned, that people like me, we've lost more than we have won, and we will probably continue to do that. But when the time comes and the crunch comes and we start talking about sequestering funds and we start talking about making cuts to appropriations we've already made, I guess I want to scream right now, begin screaming that those cuts don't come at the expense of the most vulnerable members of our community. We've already slashed those funds dramatically, as far as I am concerned.

I am not sitting here—I do not want to pick and target yet, who should be hurt. At the same time, when times get tough, which they're not tough yet, but we're hitting a little bump, and pretty much I think even you acknowledge that. When times get tough, you don't turn on the weakest members of society and take it out of their hide.

I think we've already done that, and I'm deeply concerned that we will do it again in the fall if these numbers continue the way they're going, as I think they will. I happen to disagree with you, and so be it. I actually hope you are right. I want to be wrong, because if I am right we're all in trouble. You're in trouble at the job because then you have to make numbers meet, and you're in political trouble, and you know it as well as I do.

Now, granted, politically it might be good for my side if you are wrong, but it's not good for the country, it's not good for my constituents, and I'd rather have arguments on different levels.

So, again, I apologize. I have no questions, but I just want to add my voice right now to the debate that I fear we will have in the fall about where those cuts should come, and I would like to caution you as best I can. Please, don't divide this country any more than it is already divided. It won't be good or healthy for anybody.

Chairman NUSSLE. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

Mr. Daniels, I am pleased to hear the chairman of this committee make the comments that he made in the opening of this session—that many of us have encouraged him to be strong, considerate, and tight with the taxpayers' money.

We just went through the supplemental for this year. Just yesterday I believe there was a measure passed. And then you show up today telling us you are going to want $18 billion more. That bothers me, sir.

You know, I have taken a lot of pride in the last few months at home telling folks that, you know, "We have an administration who is going to limit the growth of Government. They're wanting to give you the maximum tax relief possible, and they're wanting local control of local affairs." We have passed a tax bill that gives the maximum we could get out of this Congress, and unfortunately it does reinstate in 10 years, based on some rules over in the Senate, that 51 people over there can raise your taxes permanently, but it takes 60 to reduce them past 10 years.

We're working on the education bill that returns local affairs to the local level.

But when you show up wanting $18 billion more it just blows a hole in the first of limiting the growth of Government.

I don't want to go back home and say, "You know, I was wrong, folks. I misread the administration on this particular issue." So I suggest you go back down the other end of the street, and you come back, and you want $18 billion, well $18 billion of rescission. And I know the President well enough to know he's not going to take it out on the poor because when we tried to do something about the EITC on the reimbursement basis or at the place of employment—

I think he misunderstood what we were doing, but he said, “We’re not going to balance the budget on the backs of the poor.”

We’ve got a balanced budget, no deficits. Let’s continue with a positive cash flow. I don’t tell folks at home we have a surplus. We have a positive cash flow.

I have been in small business for going on 39 years, and for 39 years I have been in debt. I have had cash flow most of those years that enabled me to meet my obligations, but I never had enough money to retire all of my debt so I never had a surplus. We don’t have one today, sir. We have a positive cash flow.

Let’s keep it positive. Let’s come back with some measures we can live with. I don’t like this one.

Mr. DANIELS. I take your point, Congressman.

Chairman NUSSLE. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman.

Mr. Director, welcome to the committee.

Mr. DANIELS. Thank you, sir.

Mr. PRICE. Glad to have you back.

If you touched on this in response to prior questions, I apologize. Please just adjust your answer accordingly.

Mr. DANIELS. All right.

Mr. PRICE. I had to be in and out of here because of another meeting and votes.

I am basically looking for your reaction to Mr. Spratt’s proposal at the beginning of the hearing as to the way our budget rules for the future might fence off the Social Security and Medicare surpluses and let any surplus over those amounts be allocated by the budget resolution, but that the PAYGO rules, the necessity of an offset either in terms of tax increases or entitlement reductions, that those kinds of rules that we’ve lived with now since the 1990 budget agreement, that those would apply to anything beyond that on-budget surplus.

The administration hasn’t been entirely clear, at least in my understanding, as to how it proposes that we go in this area. You’ve said, I believe, that you want to extend caps and PAYGO, but that the caps may not apply to its spending programs fully, such as defense, and PAYGO doesn’t apply to the tax cut program.

I wonder if you could clarify exactly what kind of lines you would want to draw in terms of what is and is not subject to PAYGO and how this pertains to our professed desire in both parties to protect the Medicare and Social Security surplus.

Mr. DANIELS. My suggestion in the testimony I have dropped off this morning was that we start at the on-budget line. The administration has not recommended redefining the on-budget line to include Medicare, but we know there is sentiment for that in the Congress and we can talk about that.

You know, our position, of course, at a minimum is the President has argued for modernization of Medicare, which would cost money, and that at a minimum we hope would be taken care of within—we can all agree to take care of that within what the Congress views as an HI surplus.

Mr. PRICE. I’m not sure I understand what you’re saying. You’re saying that we do or do not treat the part A surplus in the same way that we treat the Social Security surplus.

Mr. DANIELS. Well, we don't today formally, and we would not propose to do that, but I'm acknowledging the sentiment that exists for doing so.

Mr. PRICE. You're acknowledging the sentiment, but are you agreeing with it or——

Mr. DANIELS. No, sir. I——

Mr. PRICE [continuing]. Willing to accommodate it, or not?

Mr. DANIELS. No, sir. The President believes that Medicare surpluses ought to be unified, and thereby recognize the true financial condition of Medicare. I think perhaps while you were voting I pointed out that over the 10-year horizon Medicare will cost the taxpayers $643 billion more than it takes in in premiums and payroll taxes, so we did not feel that it is a fair and accurate reflection of the situation to take that off budget, as well. But in setting caps and limits, you know, we can agree on what we want to agree on.

Mr. PRICE. Well, the net effect of treating the Medicare trust fund surplus the way you do the rest of the surplus would be, would it not, to open up that surplus or funds borrowed from the Medicare trust fund to the uses that go well beyond shoring up Medicare or adding benefits to Medicare or anything related to Medicare?

Mr. DANIELS. Well, it wouldn't need to.

Mr. PRICE. But it could?

Mr. DANIELS. If the Congress chose to spend money down to that or up to that level—now, again, we think it is an illusory way to think about Medicare, given the all-in deficit nature of the system, but the simplest way, as we pointed out on some other occasions, if we don't take that conceptual view of Medicare, the simplest way to avoid it is simply to spend less money.

Mr. PRICE. Well, you say "if." It appears, with the budget we've adopted this year, that we are heading in that direction very definitely; that we will be into that Medicare surplus, if not this year, then very soon.

The argument we've made—and both parties have made—in justifying the fencing off of the Social Security surplus is that in doing so we are paying down publicly-held debt in a disciplined and systematic way, and that therefore we are preparing ourselves to meet the obligations of Social Security when that cash flow reverses around the middle of the next decade.

Now, I really fail to see why that same argument precisely would not apply to Medicare part A and anything that diverts those funds, it seems to me, would weaken rather than strengthen our ability to meet our basic Medicare obligations, to say nothing of adding benefits.

Mr. DANIELS. I think you put your finger on the distinction, Congressman. it is a matter of how much surplus the Nation chooses to run, how much debt it chooses to retire in a given year.

To me, the very obvious difference between the two is that Social Security trust fund does run a true surplus. It takes in, in this year, something like $156 billion more than it pays out in Social Security, whereas Medicare is in the opposite situation.

That doesn't mean, quite apart from those definitions, that the Congress and the administration cannot agree to run an even larger surplus than whatever Social Security creates, as large as that plus the surplus part of Medicare, and more than that, for that matter, and we could agree to do that, and we could agree, at least theoretically, to set caps and limits in the BEA context that required that.

Mr. PRICE. All right. Thank you.

Thank you, Mr. Chairman.

Chairman NUSSLE. Thank you.

Mr. Miller.

Mr. MILLER. I want to applaud my colleague for his concern about Medicare and Social Security in the surplus. I think a great lesson was learned in 1994 when the American people got tired of spending all that money for all those years, and we have now become prudent and decided we're not going to spend it any longer.

I kind of feel sorry for the President right now. I mean, most of us get pulled in two directions, but he would need 20 arms to get pulled in all the directions he's getting pulled in.

We were talking about spending more money. My colleague just expressed the concerns he has about increasing it without offsets, and I'm very concerned about that, too, and I know that the President is not going to do this on the back of the poor and he's going to look at reasonable programs to see how we can trim some of the fat out of this Government.

One thing I really applaud him for is when he looked at the budget he said, "We're going to eliminate all one-time spending programs, such as pork, and we're going to look at the Government from that perspective and then determine where money needs to be spent." And he made a valiant effort, I believe, and a gallant effort to create less dependency by government on the American people.

I also applaud him because he has created a situation where the American people are also less dependent on Government. He has made a movement to empower people and to create opportunity and less reliance on others, namely Government, and us less reliant on them in the same fashion.

He's got a formidable job ahead of him—I mean, first to crank out this spending process we are going through and end up remaining within the intent of the budget caps.

I just encourage you to take the message back that many of us want to support him, but we don't want to start spending on the frenzy we had last year before he was elected. I mean, what we increased in spending last year, alone, cost the American people about $570 billion over the next 10 years. We're not interested in that. I mean, nobody seemed to have a problem complaining about taxes. They didn't have a problem about spending that kind of money last year, which is increasing our spending $570 billion over 10 years, but they had a complaint about giving hard-working people $570 billion back in tax cuts.

You've got a tough job ahead of you, and I just hope that the right decisions are made and the course is stayed that you have endeavored to take from the beginning at the President's direction, and I hope you get us to this point.

I don't disagree with the need for the funds that are being requested; I just have a concern that appropriate offsets are not taken.

Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman.

I want to say I commend the chairman and the ranking member for their statements about enforcing the budget resolution. I very much appreciate that, and I think there is a growing consensus of Members on both sides of the aisle in Congress who want to see that happen, and I hope that's the case, and I hope the White House and the administration will work with us to make sure that happens.

With that in mind, I guess I do have some concerns.

I was at the White House in February at the request or at the invitation of the President, along with 24 other House Members and Senators, I believe. At that time I told the President I didn't think his proposed tax cut was or should be a partisan issue, and I told him I voted for tax cuts prior to his coming to office, and that I would certainly favor portions of his. I was concerned about the number.

He assured me that the projections by Congressional Budget Office he thought were correct and that the surpluses would, in fact, materialize.

Since that time, of course, we've heard talk from the President and others about this $18 billion in additional funding for Defense; a national missile defense system, which estimates range somewhere between $100 billion and $200-plus billion—there's no firm number yet; about a prescription drug benefit, somewhere between $180 billion and $320 billion are the numbers I hear.

You said a few minutes ago, before we went to vote, I think, that we want to preserve the large surpluses we have today. I guess I'm becoming increasingly concerned that we are not, in fact, going to have large surpluses, and that the surpluses may become the incredible shrinking surpluses.

I would refer you to an article which was on the front page of "USA Today." I didn't see similar articles in "The Post" or "The Times," but I suppose at some point in the near future we will. This was the front page of "USA Today," and it says this—just two paragraphs—"The new tax cut, coupled with falling corporate tax revenue, has gobbled up three-quarters of the projected Federal budget surplus through 2004, a revised Congressional Budget Office estimate reveals.

"As the surplus shrinks, budget experts from both parties now say Congress and President Bush will have to tap funds reserved for Medicare to pay for the spending increases they want for the fiscal year that begins in October. Dipping into Medicare is something lawmakers and the White House have vowed not to do."

That's just the first two paragraphs of this article, but I would commend everybody here to get a hold of that paper and take a look at it, because I think we have to be concerned about that.

With that in mind, I guess, Mr. Daniels, my question to you is: with the missile defense system the President is proposing, with the prescription drug benefit which the President has one proposal and there are various other proposals out there that range again between $180 and $300 billion, with the IDEA funding, which I know our House did not adopt but certainly the Senate did and it is important to a lot of Members of the House, are we going to have the funds necessary to do those things and pay down the debt and take care of these programs the President is proposing, a lot of House Members support, and still enjoy the tax cut that the House and the Senate and the President signed into law?

Mr. DANIELS. Congressman, the way I want to think one should think about this is that we certainly can meet the Nation's needs, including address each of the subject matter areas you just mentioned.

Now, if on your personal napkin you take the high-ball estimate for each and every item, it is possible to construct a way—I'm sure we could all do it—in which you do use up the enormous surpluses which will exist under virtually any set of conditions, but those, of course, are choices for us all to make, and that's what trade-offs are about and that's what leadership is about and that's why I'm convinced that Congress will find ways to make headway on these fronts, each of them, maybe not as much on every one as its most ardent advocates would hope.

It is important, and I think it is very useful that we are so focused on protecting the strong fiscal position which the Nation finds itself. We shouldn't overlook the stunning good news here—and I take you back again to the point that even at a time of a very weak economy—it is now clear that the economy has weakened much more than most understood—we are here talking about whether the surplus will be closer to $160 or $170 billion versus something over $200 billion. That's just not the worst conditions we could be facing.

Mr. MOORE. Thank you.

Mr. Chairman, I guess I would ask you to consider—Mr. Spratt indicated that he was invited to breakfast last week. You were not able to attend. I wasn't invited and didn't attend. I guess I would ask you to consider issuing on behalf of this committee a formal invitation to Secretary Rumsfeld to appear here and at least give us a status report about where he is and where the Department of Defense is in trying to conduct this review—again, which you said you support and I certainly support, as well, but I think we have to, if we are going to be responsible here, have some indication of when we might expect to hear some final word and a report back from the Department of Defense and Secretary Rumsfeld. I'd ask you to consider issuing a formal invitation to him to appear here to discuss that.

Chairman NUSSLE. I appreciate that. I'm considering something even stronger than that.

And, by the way, I'm on a diet. That's why I missed breakfast.

Mr. Hoekstra.

Mr. HOEKSTRA. Thank you, Mr. Chairman.

Welcome, Mr. Daniels. It is good to have you back.

Mr. DANIELS. Thank you, sir.

Mr. HOEKSTRA. And it is great to see all of the bipartisan concern about making sure that we maintain our surpluses.

One of the things that this committee has spent a considerable amount of time on and has been a pet project of our chairman, who has really done a lot of good work on this effort, is the whole area of budget process reform.

Have you had an opportunity to take a look at some of the budget process reform initiatives, and has the administration or you taken a look at some of the things that you might be willing to support and embrace?

Mr. DANIELS. Yes, sir. The President has announced as a candidate and as President his support for a number. One of them, as part of my testimony this morning, the suggestion of a joint budget resolution. This is a potential way to address the question before us today about the future of budget enforcement. But he has also indicated support for a biennial budget process and for enhanced rescission powers and for a continuing resolution reform, just to name three others, which, if there is interest in the Congress, we would be happy to try to move forward.

Mr. HOEKSTRA. Good. Thank you.

The other thing that I think sometimes gets frustrating to those of us in the House—and I guess OMB does it differently—do you use dynamic scoring in your modeling?

Mr. DANIELS. No, we don't.

Mr. HOEKSTRA. You don't?

Mr. DANIELS. No. The governing conventions do not permit it.

Mr. HOEKSTRA. OK. How do you feel about using dynamic scoring, recognizing that some of the decisions that we might make here might actually impact behavior in the future? And do you think that dynamic scoring might give us better models of future financial performance versus the static modeling that we currently have in place?

Mr. DANIELS. Yes, I do. I think it has to be approached with great caution, but the difficulties and the uncertainties of it should not prevent us from moving at all.

The tax cut that Congress just passed was estimated by Dr. Feldstein from Harvard, for example, to have an economic feedback effect of at least $500 or $600 billion. I don't know if that's right or wrong. All I know is the answer is not zero. But that's the assumption we make today—that, for instance, that any tax cut that is enacted will have absolutely no effect on behavior, no effect on economic activity, no effect on revenue.

Now, we all know that's not the right answer. I think it would be very important to address this, and I'd say very cautiously. It would be a big mistake to overshoot and to begin assuming revenues that did not arrive. We wouldn't want to mislead ourselves in that way.

Right now we take, I think, a sort of undeniably artificial view in the other direction.

Mr. HOEKSTRA. I mean, the modeling in the business community will go into scenario modeling where you could lay out a static model if there is no change, a conservative model which would say, you know, on a conservative basis you might see "X" amount of economic activity or growth, and a more optimistic end, which—I mean, have you guys taken a look at an approach like that that would give us a better scenario of some of the impact of some of the decisions that we would have?

Mr. DANIELS. I used to commission and review exactly those kind of submissions routinely during my years in business, Congressman.

I guess I would say this—I am an advocate of movement toward dynamic scoring for the reasons I gave. I do think it ought to be approached very, very cautiously. There are differences in the public context, and it would be a mistake to find ourselves in an overestimation because, unlike in business, where spending can be switched off rather quickly by decisions of business management, we don't switch off spending in the public context. And if we committed to a level of spending, banking on some level of revenue that turned out to be too optimistic, we would be stuck with the consequences, in all likelihood.

So mark me down as favorable, but, as in I hope most other matters of budgetary assumptions and estimates, tending to conservatism.

Mr. HOEKSTRA. OK. Good. Thank you very much.

Mr. DANIELS. You're welcome.

Chairman NUSSLE. Ms. Clayton.

Ms. CLAYTON. Thank you, Mr. Chairman.

Mr. Daniels, in your testimony you gave some space to the subject called advanced appropriation, emergency spending. But, when we examined it there wasn't very much there. I assume that it was in your challenge to us that to be fiscally disciplined we shouldn't have advanced appropriation and emergency spending.

In light of that, and particularly in the last conversation about dynamic scoring or modeling the impact of actions we take, I just want to speak to the issue of emergency spending.

The 2002 budget conference agreement failed to set aside any money for disasters, while the President's budget did request it. If you have answered this, please forgive the question.

Is this omission or does this absence of funds from the conference agreement make the decision that we made on point three, including that the budget appears to be more or less affordable?

Mr. DANIELS. I don't think it has any effect on that decision, but we do regret that Congress did not agree to, in essence, pre-fund emergencies, which is what I think prudent and cautious budgeting would call for, and we may suggest that again in the future. It is quite true that in the compromise that finally led to the budget resolution, essentially the emergency reserve we had requested was declined and those funds, in essence, were made available for other discretionary spending, and that's what is occurring right now in the appropriations process.

We do have, of course, money appropriated for emergencies, but it may well not be enough. Congressman Bentsen's questions reminded us of that earlier. So if it turns out it is not, we will seek and support necessary funds. We'll simply have to guard against abuses of the emergency process through the President's own ability to not designate or not sign bills that attempt to misuse that opportunity.

Ms. CLAYTON. How does that coincide with the Budget Enforcement Act if we don't have enough monies for the emergencies?

Mr. DANIELS. This is an allowable exception to the Budget Enforcement Act. In fact, that's why it has been used so aggressively in the past, because it was one of the—and it is a legitimate concept, certainly, that in a case of true emergency that an arbitrary cap ought not prevent the Nation from responding to a flood or to a storm like Allison, etc.

What we have sought to call attention to is that past supplementals, if you look at the last three, they cost the Nation an aggregate of $8 or $9 billion more than was requested, and this was because people took the opportunity to add non-emergency items to hitch that to the vehicle as it moved ahead.

Ms. CLAYTON. Our agricultural supplemental is emergency or is it just in the emergency reserve?

Mr. DANIELS. Are you referring to the agricultural bill that just passed yesterday?

Ms. CLAYTON. Yes.

Mr. DANIELS. Well, I think that is in a different category. That is not technically a supplemental bill, but it is within the allowable limits for 2001. We are very pleased that the Congress—House, I should say—passed it without exceeding the limit established for 2001.

Ms. CLAYTON. So am I, but the question is: how would you classify that? As an emergency, or as a supplemental?

Mr. DANIELS. Well, I think we'd classify it as neither.

Ms. CLAYTON. OK. How can you do that? How do you describe it? Where does it go? Is it out in cyberspace? Now, I'm on the Agricultural Committee and I voted for it because I thought it was a good thing.

Mr. DANIELS. Yes.

Ms. CLAYTON. But how do you classify it?

Mr. DANIELS. Well, with the supplemental of this year, we are within the discretionary cap still for the year if the Senate follows the House's lead, and the agricultural spending is simply an amendment of the existing authority under the mandatory aspects of the farm bill.

Ms. CLAYTON. Would you classify it as neither supplemental or emergency? What is it?

Mr. DANIELS. Well, someone with a better dictionary than I have can tell you exactly what nomenclature should apply.

Ms. CLAYTON. Well, if you can't, I can't. If you are the expert in the——

Mr. DANIELS. Yes. Can I give you an answer by letter this afternoon?

Ms. CLAYTON. You can. That's acceptable.

Mr. DANIELS. OK.

[The requested information was unavailable at press time.]

Chairman NUSSLE. Just to follow up quickly, would the administration support the inclusion in a cap extension vehicle of some sort or PAYGO extension vehicle another run at this emergency provision that, as you know, the committee supported and the House supported? Would that be something the administration may consider supporting, as well?

Mr. DANIELS. Yes, Mr. Chairman. We would like to keep that concept alive. We do think that, again, it is a more-responsible and transparent way to go about planning for the spending we know is going to happen.

Chairman NUSSLE. Thank you.

Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman.

Welcome, Mr. Daniels. You've got a tough job, and I think you are starting to realize how tough it really is going to be.

I want to sort of piggyback a little bit on what the chairman talked about in terms of what we are going to do with Defense.

Now, from the outset I have to say I support strategic defense. I think the notion of protecting the United States and ultimately our allies from attacks from potentially rogue nations I think is as important to us today as radar was to the British in 1939, so I do believe that we have to move forward, and I think the idea that we have to have a perfect system in some respects I think we have to step back. I mean, we don't have any system in our arsenal today that is absolutely perfect, and I don't think we have to set that standard in order to move forward with it.

But I do have to say, on the whole issue of Defense, we have to back up a bit and look at how much we spend and what we get for it in return, and I think there are two issues that, if Mr. Rumsfeld doesn't deal with this, he's going to have an awful lot of heartaches when he gets up here to Capitol Hill. One is burden sharing, because we in the United States are currently spending almost 3 percent of our gross domestic product on national security. Our European allies, where their gross domestic product in the European Union is almost as large as ours, they are only spending about 1.5 percent.

It seems to me, until we deal with that disparity, because they are more than happy to allow the United States to literally shoulder most of the cost of policing the shipping lanes and making certain we live in a peaceful world, at some point we have to deal with that, and if we don't deal with it in the Rumsfeld report I don't know where we will do it.

The second thing is that it is my understanding—and I believe this is correct—that we currently have more admirals and generals in the military today than we had at the peak of World War II when we had over 15 million Americans in uniform, and at some point we have to deal with this top-heavy bureaucracy that we see developing down at the Pentagon.

Finally—and I just want you to comment on a few of these things if you care to—but it seems to me the discussion we're having today ultimately leads to some kind of conclusion we've got to deal with in this committee and the Congress and we need help from the administration, and that is: what kind of spending caps will we set? Because I believe and have believed for a long time—and this debate started with Mark Neumann, who sat on this committee—that there is no way that the Federal budget should grow any faster than the average faster budget, and if the Bureau of Labor Statistics is correct—and you have better economists, perhaps, than we do, or maybe even BLS does, but we are told that this year the average family budget will grow by about 4.2 percent. I my opinion, there is no reason that the Federal budget should grow at a rate faster than that.

I mean, if we can't figure out ways to prioritize our spending and live within the same kind of budget caps that the average family does, then shame on us. And we need your help and we need help from the administration both in dealing with how do we adequately fund our military—we all want our kids to be properly trained and we want to have the latest technology if we have to send them into a place where they can get shot at and killed, but, on the other hand, we also have to deal with this growing problem, as I see it, of a top-heavy bureaucracy at the Pentagon and with the fact that our allies are more than willing to allow us to shoulder a disproportionate share of the cost of policing the world.

If you want to comment on any of that, we'd love to hear from you.

Mr. DANIELS. Just quickly on two points.

I think the general rule of thumb that the Government ought not grow faster than the economy or the American family budget is not a bad one to operate in, and the President's proposal, which many, of course, castigated as too slow a rate of growth, was just at about that level, many observed, of what the American family can expect this year.

Now, the additional request for Defense we very openly say is a matter of catching up and also a matter of getting to an honest budget in the first place so that you are not presented with a little piece of it this year and the rest of it next spring, which has been the case for several years in a row until President Bush got here.

I think that suggestion is a pretty good watch word for us all.

The only thing I would say about the Defense spending—and it was a point that I believe Congressman Thornberry perhaps raised earlier—Congress will have such a large role in this process, not only in terms of making the decisions but in terms of sharing in the statesmanship, and if you doubt that Secretary Rumsfeld has got an enormous job ahead, just note that today, when he announced the first very modest reduction associated with consolidation of the B-1 bases, there was quite a lot of noise about that.

There is going to have to be, I think, a large degree of statesmanship and forbearance on the part of all actors if we are going to make the kind of changes that it is clear both sides of the aisle in this committee support.

Mr. GUTKNECHT. But that's part of the problem. If you have a moving target at the overall dollar limit you are going to have, you're going to have those kinds of debates. If we can all agree at the beginning how big the pie will be, then there will be legitimate debates about how much will go to strategic defense, how much will go to B-2 bases, you know, whatever you want to have that debate.

But the problem is we have sort of a moving target in terms of how big the pie will be. As long as you have that uncertainty out there, you are going to have a whole lot of bickering going on up here in Capitol Hill.

Chairman NUSSLE. Mr. Clement.

Mr. CLEMENT. Mr. Chairman, I have some amendments at the desk. Should they be considered at this time? [Laughter.]

Director Daniels, good to have you here today.

Mr. DANIELS. Thank you, Congressman.

Mr. CLEMENT. You heard Mr. Collins a while ago say he doesn't call it "surplus" in his Congressional District. He likes to refer to it as a "positive cash flow." And he may be right. And I just wanted to ask you, as the new director, and knowing that you haven't been on the job for that long yet, do you still foresee surpluses or positive cash flow as far as the eye can see?

Mr. DANIELS. Yes, I do. And I think that they will and can, even in the context of other decisions the Congress may make, be of the on-budget as well as the unified variety.

Mr. CLEMENT. Do you think firewalls are effective? And, if so, what are your recommendations for firewalls if caps are extended beyond 2002?

As you know, currently the discretionary caps include categories for overall discretionary spending—mass transit and highways and conservation funding. In the past, caps have been established for Defense and non-Defense programs, violent crime programs, and international.

Mr. DANIELS. Yes, sir.

Mr. CLEMENT. But what about after 2002?

Mr. DANIELS. I think we ought to look skeptically, in general, at, in essence, reducing the discretion of Congress or an administration to shift dollars to address shifting priorities. That isn't to say there aren't ever appropriate uses, some which relate directly to trust funds, for example, as I guess a stronger case can be made. Some I think have been necessary in the past, and sometimes this was the case around Defense. But I think we should be careful about fencing off too much of the budget.

As I mentioned earlier, I'd like to see the overall field get larger, as opposed to ever smaller, by re-examining some of those things that have gone over the fence to the mandatory side of the budget and kind of outside, therefore, the authority of decision-makers in the budget appropriation process.

Mr. CLEMENT. Tell me about—I know you commented a while ago about biennial budgeting, that the administration thinks that's a good idea. Could you expand on that, why you think it is a good idea?

Mr. DANIELS. Many of the needs with which the Nation deals are multi-year, more than two but certainly more than 1 year in character. I think that there is an argument that it would leave the Congress more time for other matters.

We have tried to make an emphasis, even without the tool of a biennial budget, to try to make some emphasis really to try to ally with the Budget Committees and have an orderly process this year. So far, by the way, I think it has gone very well, thanks to this committee for its leadership, and the Appropriations Committee, even with a late start that was forced on them, are moving swiftly. And so I think there is some hope that we will have an on-time arrival or something like it. We ought to all try. But a biennial budget would make that even more practical, some believe, and might leave the Congress time it doesn't have today to step back and look at broader policy issues, and if so that would be a good outcome.

Mr. CLEMENT. Such as oversight——

Mr. DANIELS. Yes, sir.

Mr. CLEMENT [continuing]. Of various programs?

Mr. DANIELS. Absolutely.

Mr. CLEMENT. What about changing the budget resolution to a joint resolution requiring the President's signature?

Mr. DANIELS. The President favors this and I think it is a very relevant question in the context of today's hearing, because this is at least one idea we wanted to offer into the mix—that this might be—the updating of the caps and the renewal of a Budget Enforcement Act might be an ideal time to institute, in essence, on an annual basis what has happened occasionally in the past. There have been these occasions where circumstances have led to Presidents coming together with the Congress and, in essence, through BEA amendments, having what I would look at as kind of a joint budget resolution. I think it is a great vehicle.

Mr. CLEMENT. Thank you.

Chairman NUSSLE. Thank you.

Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

Very briefly, on the question of firewalls, it seems from your testimony you are saying that this year, with the Defense supplemental, the $18 billion which is going to be added onto over time, apparently, that you do want a firewall, and, in fact, you would add on top of the 661 figure that is in the budget resolution.

I would argue that we may want to have firewalls going forward, because the concern I've got is that DOD is going to nickel and dime the Congress to death and we're not going to have the debate about where we should fund our priorities.

Now, I understand my colleague saying, "Well, we ought to spend no more than what the American household spends every year," but the fact is every once in a while the American household has a hole in the roof or their boiler goes out or something else that is an extraordinary expenditure, and I think you can make the case or you're trying to make the case that the DOD plus-up is an extraordinary expenditure, but at the same time I'm worried that you want to come and take it out of the non-Defense discretionary side of the budget that has already been squeezed, and at the same time that you want to plus up the education side, so I have that concern.

The other concern is, with respect to going to a 1-year resolution, I would say you might be right about that. At the same time, I think you can show some empirical evidence that having a 5-year cap window gives you something to work against, and Congress until recently has abided by those multi-year caps, so if you go to a 1-year cap I'm worried that we could just adjust it every year when we decided we didn't have enough money, so you might think about that.

Finally, it seems to me what you are saying with respect to the Medicare part A is that the administration continues to hold to the theory that part A and part B are, in effect, one, there is no trust fund, and thus, for purposes of whether we are spending the off-budget surplus or not because of a tightening surplus, that the administration intends to use the part A surplus if we dip below it and make the political argument that we are not in deficit so long as we are not using the Social Security surplus. Is that a correct assumption?

Mr. DANIELS. Well, you do state our conceptual view of Medicare correctly.

Mr. BENTSEN. So that, to the extent that the increase in Defense spending, the lessening of revenues due to the tax cut, and whatever happens with the surplus vis-a-vis the economy, that, to the extent that we dip below the on-budget surplus figure, the administration's position will be that as long as it is not going in the Social Security trust then we are still running a surplus.

Mr. BENTSEN. I think the technical definition of "on-budget" is at the Social Security line. We recognize there are Congressional enactments that seek to hold or to maintain surpluses even higher.

Mr. DANIELS. I grant you that. You're correct about the on-budget. But the political line has been that Medicare be included in that. The administration does not agree with that at this point.

Mr. BENTSEN. We have not subscribed to that.

Mr. DANIELS. Thank you.

Mr. BENTSEN. Thank you, Mr. Chairman.

Chairman NUSSLE. Thank you very much.

Mr. Daniels, thank you very much for your testimony today. I will report to you that the committee is considering holding a markup in the very near future on this issue with regard to the caps and PAYGO and possibly some other Budget Enforcement Act issues, and we would welcome any additional comments or suggestions as we go down the path.

One final word on the Defense issue, since it appears that it is going to be submitted today. I would just suggest to you that, after listening to the other Members' inquiries today and your response to it, it is obvious that the pentagon went through a 6-month review in order to decide how much they needed for a catch-up, and it would have been nice if they would have spent that 6 months deciding what the modernization would be.

I know that there may be others who share that concern, and maybe even including you, and I don't mean to pile this all on your desk. That's why we both get the big bucks, so to speak. And it is also because Mr. Rumsfeld hasn't been before the committee that we pile it at your table.

Those are our observations, and we appreciate the chance to report them to you and to get your feedback on budget enforcement issues.

Mr. DANIELS. I read you loud and clear, Mr. Chairman, and I will take the sentiments of the committee back.

If I may, as I leave I would like to point out to the committee members how healthy a person looks after he leaves the job of budget director. I hope you notice the contrast between my emaciated condition and Congressman Panetta's vibrant health. [Laughter.]

Chairman NUSSLE. Thank you very much.

Mr. DANIELS. Sure enough.

Chairman NUSSLE. Thank you.

Our next panel is the director of the Congressional Budget Office, Dan Crippen.

Mr. Crippen, this is the first time we've had the opportunity to have you before the committee. We not only welcome you to the committee, let me just make a couple of comments. Number one, you were very ably served in your absence before the committee. We had very good testimony and information from the Congressional Budget Office, and we're glad you are back and getting around better, and we were thinking about you during that period of time, so we just wanted to let you know that we are happy that you are back at the helm and interested in your testimony here today.

Welcome.

STATEMENT OF DAN L. CRIPPEN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. CRIPPEN. Thank you, Mr. Chairman.

Mr. Chairman, Mr. Spratt, as always we have submitted written testimony, which I will not spend time on here. I would like to make a couple of introductory comments, however, in brief.

We essentially think that the BEA and even its predecessor's attempts at budget enforcement were salutary and should be extended in some form as the Congress sees fit. A budget without enforcement is probably honored only in the breach. The Budget Committee and the Congress need the ability to have some enforcement mechanisms, and the BEA has proved useful in that regard.

Second, I think we need to keep in mind how we got here today and remember that we have only recently looked forward to at least a period of some surpluses and away from significant deficits.

The path of how we got here also is instructive on some of the debates today. While fiscal policy played a clear role—indeed the last administration would argue that fiscal policy changed the economics dramatically—it is the performance of the economy in many ways that has produced the surpluses that we now enjoy, and it could be the performance of the economy that we need to worry about most of all in keeping this kind of surplus together.

Third, our discussions today about firewalls around the Social Security and Medicare trust funds are something my friend and mentor Senator—now Ambassador—Baker used to call a "high-class problem." In the past we didn't have much discussion about on-budget and off-budget, or worrying about protecting the Social Security trust fund. We now have the ability to protect the fund and it is probably a good thing to do so, but at this point we have no real enforcement mechanism. It is a political firewall, if you will, and that's important—probably more important than a procedural firewall.

But, nonetheless, it is a relatively new phenomenon. All of us remember many years in which these trust fund balances were absorbed into totals of the budget and utilized that way.

Let me say, Mr. Chairman, two things in addition. One is I didn't bring any napkins, nor did I bring any envelopes, which I think is a higher standard of estimation. But as other Members have cited, it has been reported as recently as this morning that somehow we have new estimates. Frankly, we don't. We are in the process, as all of you, I think, know, of producing a mid-year assessment, which will come out in August or thereabouts.

A couple of weeks ago our economic advisors were in. We reviewed a forecast with them. We're working on revising that forecast now based on their comments and other data, so it won't be until that time—end of July and into August—that we know what the future or near future may look like.

I would also like to point out that we made a few adjustments in the analysis of the President's budget. We took the opportunity then to make a couple of adjustments in our baseline—not so much in the forecast, but in terms of reducing slightly the revenue take for this year. That was our last look at where we think we are. At that time, also, outlays were running below what we would have expected. There are always two sides to this equation, and if outlays are running below, even though revenues are running below, then it may not dramatically affect the outlook for the surplus.

Likewise, neither we nor our economic advisors have seen anything at this juncture that would change the long-term outlook a great deal. I think things are not going to change dramatically, especially over the long term.

And, speaking of the long term, I think it is important to keep in mind that although we are only looking in this process to the next 10 years, it is very important to look beyond that.

I have my age-old chart that I carry around with me that we can put up again. What it shows is something we all know but we still have to keep in mind. When our generation retires, we—that is, retirees—are going to consume a significant amount of the existing Federal budget and the economy. Whether we need budget discipline today and a precise line upon which we don't tread, the time is soon coming when the budget will be consumed by these programs in our current outlook or we will have to significantly increase debt or taxes or cut other spending.

So the longer-term outlook, Mr. Chairman, is not certainly as rosy and as full of surpluses as is the 10-year outlook.

With that, I'll quit and invite your questions.

Chairman NUSSLE. Thank you very much.

[The prepared statement of Dan Crippen follows:]

PREPARED STATEMENT OF DAN L. CRIPPEN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

This document is embargoed until 10 a.m. (EDT), Wednesday, June 27, 2001. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

Chairman Nussle, Congressman Spratt, and Members of the Committee, thank you for the opportunity to testify today on extending the Budget Enforcement Act of 1990 (BEA). The major provisions of the BEA expire at the end of fiscal year 2002. The basic framework of enforcement procedures established by that law the annual limits on discretionary appropriations and the pay-as-you-go (PAYGO) requirement for new mandatory spending and revenue laws has generally helped to improve budgetary discipline over the past decade. However, issues and concerns about the law have arisen, especially in recent years.

My testimony today will make the following major points:

- The key budget enforcement provisions of the BEA, which cover the statutory sequestration procedures enforced by the executive branch, will expire on September 30, 2002. In contrast, the Congressional budget process, which centers on the adoption and enforcement of the Congressional budget resolution, generally does not expire (with the exception of certain Senate procedures).
- On the whole, the BEA has been salutary. It promoted budget constraint that helped to produce the surpluses that have emerged since 1998. However, those surpluses and other factors have also put increasing pressure on lawmakers to circumvent the discretionary spending caps and the PAYGO requirement, making them less effective recently.
- Possible improvements in the BEA's framework include enhancing flexibility within the discretionary caps and clarifying how to classify certain budget transactions for the purposes of enforcing the BEA.
- Broader changes, such as those in the Nussle-Cardin budget reform legislation of the 106th Congress (H.R. 853), could help to improve the budget process. Ulti-

mately, however, that process has only a limited influence on the formation of a political consensus; no procedural change can guarantee agreement on budget policies.

A BRIEF OVERVIEW OF THE BEA AND EXPIRING PROVISIONS

The BEA built on an existing framework of budget enforcement procedures. The Balanced Budget and Emergency Deficit Control Act of 1985 established a schedule of fixed, declining deficit targets for each of six fiscal years beginning in 1986, leading to a target of zero in 1991. The Deficit Control Act also created a procedure known as sequestration in which spending for many Federal programs would be automatically cut if the deficit for a fiscal year was estimated to exceed the target level. A sequestration, if necessary, would be carried out by an executive order that the President would issue under the terms of a sequestration report from the Comptroller General. That report was to be based on a joint report by the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO).

In 1986, the Supreme Court ruled in Bowsher v. Synar that it was unconstitutional for the President's sequestration order, an executive action, to be determined by a report from the Comptroller General, an official accountable to the Congress. Consequently, the Deficit Control Act was modified in 1987 to give OMB the authority to prepare the estimates and calculations used to trigger a sequestration order. As part of that change, CBO was required to issue advisory sequestration reports to OMB.

Although deficits shrank somewhat in the late 1980's, they failed to meet the statutory targets in some years by substantial margins. As a result of that failure, the BEA was enacted in the fall of 1990 (as an amendment to the Deficit Control Act) to establish new procedures for deficit control. Its controls included annual caps on budget authority and outlays in appropriation acts and a pay-as-you-go procedure to prevent new mandatory spending or revenue laws from increasing the deficit. Both of those controls were to be enforced by sequestration. However, under the BEA, a breach of the discretionary spending caps would lead to reductions only in discretionary programs, and a breach of the PAYGO control would trigger cuts only in certain mandatory programs. The Deficit Control Act's concept of deficit targets was retained, but it essentially became moot.

The BEA's procedures were originally supposed to expire at the end of fiscal year 1995. The Congress has periodically extended their life, most recently in the Balanced Budget Act of 1997. Currently, most of the provisions of the BEA are set to end on September 30, 2002. Those provisions include the discretionary spending limits and related sequestration procedures (set forth in section 251 of the BEA) and the process for tracking the costs of legislation covered by the PAYGO requirement. (A brief description of the provisions that expire at the end of fiscal year 2002 is included in the appendix to this testimony.)

Section 252, which sets out the PAYGO procedure, does not expire at the end of 2002. After that time, however, OMB would no longer be required to track the budgetary effects of new mandatory spending and revenue laws for the purpose of PAYGO enforcement. That tracking known as the "PAYGO scorecard" records the 5-year budgetary effects of all laws covered by the PAYGO requirement. The termination of that tracking will effectively shut down the PAYGO system for new laws. However, because section 252 itself does not expire, the possibility of a sequestration of mandatory spending would continue through fiscal year 2006 (the year that section 252 and other remaining provisions of Part C of the Deficit Control Act will expire) for PAYGO legislation enacted before the end of fiscal year 2002. Thus, any sequestrations after 2002 would occur solely on the basis of the net costs from legislation enacted before the end of 2002.

In addition to those statutory budget procedures, the Congress has a budget process that centers on the adoption and enforcement of the annual Congressional budget resolution. That process laid out in the Congressional Budget Act of 1974 generally does not expire. However, certain provisions of the 1974 law that require a three-fifths vote in the Senate to waive various enforcement procedures (points of order) will expire at the end of fiscal year 2002.

EVALUATING THE BEA

The Budget Enforcement Act helped to provide budgetary discipline for most of the 1990's. From 1991 to 1997, the growth of total discretionary outlays was well below the rate of inflation (principally because of significant cuts in defense spending after the end of the Cold War). New mandatory spending and revenue laws enacted during that period were consistent with the deficit-neutral PAYGO requirement. Since the BEA's enactment, only two small sequestrations of discretionary spending have been ordered, both of which occurred in 1991.

Beginning in 1998, however, the fiscal environment changed. The large and growing surpluses that began to emerge in that year eliminated the essential purpose of the BEA disciplines to reduce and control deficits. In a time of surpluses, the discretionary spending caps and PAYGO requirement (when enforced) generally bar legislative actions that would make projected surpluses smaller. As surpluses have grown to record-setting levels, those procedures, as extended in 1997, have been circumvented.

For example, in 1999 and 2000, lawmakers enacted record levels of emergency appropriations which are effectively exempt from budget enforcement procedures and used other funding devices to boost discretionary spending well above the caps set in 1997. For 2001, lawmakers set new, higher statutory caps to accommodate increases in discretionary spending (the new outlay cap is about $60 billion higher than the one for 2001 set in 1997). They also reset the PAYGO balance for the year at zero. That action prevented the need to offset an estimated $10.5 billion drop in the surplus caused by new mandatory spending and tax laws enacted during the last session of the 106th Congress. For 2002, the adjusted cap on total discretionary outlays ($572 billion), which lawmakers have not reset, is about $100 billion below the baseline level of discretionary outlays projected for that year ($678 billion). Moreover, OMB's sequestration preview report for 2002 shows a $16 billion net reduction in the surplus for the year from the estimated costs of mandatory spending and revenue laws enacted in earlier years.

Lawmakers' goal of using the off-budget (Social Security) portion of surpluses to reduce public debt has added an informal but important new component to budgetary discipline. In general, paying down Federal debt provides economic benefits that would give lawmakers more flexibility to deal with long-term budget problems linked to the aging of the baby-boom generation. Many lawmakers support establishing a "lockbox" procedure in law that would make the goal of preserving off-budget surpluses a statutory requirement, on a par with the discretionary spending caps and PAYGO discipline. Many would also extend the lockbox concept to the annual surpluses from the Medicare Hospital Insurance trust fund.

In 2000 and 2001, relatively large on-budget surpluses and projections of growing surpluses in the future may have weakened overall budgetary discipline and further intensified the pressures on the discretionary spending limits and PAYGO requirement. If future on-budget surpluses fall below current projections because of shifting economic conditions, the estimated costs of the recently enacted tax cuts, additional new spending or revenue laws, or other factors, the informal commitment to preserve Social Security and Medicare surpluses could impose significant budgetary constraint.

SELECTED ISSUES IN EXTENDING THE BEA

Despite recent experience, the underlying philosophy of the Budget Enforcement Act that appropriations should be enacted within enforceable limits and that the estimated costs of new mandatory spending and tax legislation should generally be offset has proved to be effective in the past. Even in an era of surpluses, the discretionary caps and PAYGO requirement could be important components of overall budgetary discipline. However, lawmakers may want to consider certain issues as they decide whether or how to extend those procedures.

The most glaring difficulties with the BEA's framework have centered on enforcement of the discretionary spending limits. In 1999 and 2000, lawmakers were criticized for enacting record amounts of emergency spending and for excessively using advance appropriations, obligation delays, and timing shifts to appropriate more funds than the caps for those years permitted. The root of the problem, however, was the base levels of discretionary appropriations allowed under those caps. Those levels were not supported by a consensus of lawmakers.

In addition, at whatever level lawmakers decide to set discretionary caps, it is important that they retain flexibility to adjust spending priorities within those caps. The discretionary spending limits have often included sublimits for certain categories of spending. Currently, there are sublimits for spending on highways, mass transit, and conservation. At various times in the past, separate limits have existed for defense, domestic, international, and crime-fighting appropriations.

Separate sublimits within overall caps may serve important policy goals. But lawmakers give up flexibility to meet other needs within those caps when they carve out separate limits for certain programs, especially if the sublimits also act as floors on spending. In addition, spending priorities may shift from year to year. If the overall caps are extended for a 5-year period as they have been in the past establishing subcaps might make it difficult to shift priorities or, conversely, might prompt lawmakers to again employ the spending devices for which they have been criticized in recent years.

Another issue that lawmakers may want to consider as they review the BEA is budgetary classifications under the law. In the conference report accompanying the BEA and its subsequent extensions, the Congress included scorekeeping guidelines that help OMB, CBO, and the House and Senate Budget Committees treat the budgetary effects of legislation consistently. However, the treatment of certain policy actions needs to be clarified. For example, CBO and OMB treat governmental receipts that result from provisions in appropriation laws differently: CBO places those receipts on the PAYGO ledger, whereas OMB counts them under the discretionary spending caps. That difference creates confusion in budget scorekeeping and can complicate final Congressional action on annual appropriation acts.

BROADER CHANGES IN THE BUDGET PROCESS

Because the context for the coming debate about extending the BEA is likely to be quite different from the context in earlier years, it may prompt a wider look at the budget process and related issues. Indeed, last year, the House considered legislation that would have changed the budget process in ways that could help to improve budgetary decisionmaking. That legislation (H.R. 853) was developed by the Task Force on Budget Process (the Nussle-Cardin task force) of the House Budget and Rules Committees.

The subject of budget accounting may well receive greater examination in coming years. One major accounting issue is the role and status of trust funds and other earmarking devices in the Federal budget and whether they ease or complicate lawmakers' efforts to set overall budget priorities each year. Another important issue is determining the optimal accounting procedures for the Federal Government's long-term liabilities. One proposal, which was included in H.R. 853, would phase in present-value credit accounting for Federal insurance programs and certain other long-term liabilities. Such accounting might improve the information available to lawmakers and help to control costs, but the conversion from cash accounting to present-value accounting for insurance programs would be difficult, time-consuming, and potentially confusing (at least initially). If the Congress decides to make such a change, it may want to do so carefully and incrementally.

Another area of concern to some observers is the annual budget process. A number of lawmakers worry that the process is too complex and confusing; they would like to make it simpler, easier to understand, and more efficient. For example, some lawmakers contend that excessive complexity in the budget process and other factors have led to delays in enacting budget legislation especially appropriation laws. To help ease those delays, they favor converting the annual budget cycle to a 2-year timetable, providing for automatic continuing appropriations, and turning the Congressional budget resolution into a joint resolution signed by the President (proposals that were considered during the debate on H.R. 853).

Regardless of such changes, the budget process tends to function more smoothly when a political consensus exists on spending and revenue policies. In particular, during a period of divided government, no modification to the budget process can guarantee timely agreement on budget legislation.

CONCLUSIONS

Lawmakers are considering whether to extend the BEA in a vastly different budgetary and fiscal environment than the time of high deficits that existed when the law was put in place. The current period of large surpluses is unprecedented and has led some people to question the need for a BEA-type framework of budget constraints.

Yet even during a time of surpluses, budget constraint is important. Budgeting is a process for setting priorities and allocating resources. Large surpluses do not make those tasks unnecessary. Moreover, baseline projections of surpluses depend largely on continued economic growth and assumptions of continued fiscal constraint, which may or may not come to pass. In addition, long-term budget problems linked to the aging and retirement of the baby-boom generation loom just beyond the current 10-year budget horizon. Even substantial surpluses over the next several years cannot eliminate the budgetary tensions that those coming demographic changes and other factors will bring.

Despite recent problems, the BEA framework of discretionary spending limits and PAYGO enforcement has generally promoted budgetary discipline. It can continue to be an important component of budgetary policymaking and help lawmakers to confront future budgetary pressures.

APPENDIX: BUDGET PROVISIONS EXPIRING ON SEPTEMBER 30, 2002

Part I. Section 275(b) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by section 10212(b) of the Balanced Budget Act of 1997, provides that:

"Sections 251, 253, 258B 2 U.S.C. [§§901, 903, and 907C], and section 271(b) [2 U.S.C. §900] note of this Act, and sections 1105(f) and 1106(c) of title 31, United States Code, shall expire September 30, 2002. The remaining sections of part C of this title [2 U.S.C. §§900-909] shall expire September 30, 2006."

The majority of those expiring provisions constitute the enforcement provisions of the Deficit Control Act of 1985.

- Section 251 sets forth the discretionary spending limits and provides the procedures to enforce those limits through sequestration of existing funding for discretionary programs.
- Section 253 provides for sequestration of funding for Federal programs to enforce "maximum deficit amounts." However, no such amounts have been defined since 1995. In addition, the amounts defined for fiscal years 1992 through 1995, as adjusted under law, were consistent with the discretionary spending limits and pay-as-you-go requirement and provided no additional constraint.
- Section 258B authorizes the President to propose changes in which discretionary defense programs are affected by a sequestration order. The section also contains expedited legislative procedures for Congressional consideration of a joint resolution affirming the President's proposed changes.
- Section 271(b) constitutes a rule of the Senate requiring a three-fifths vote to waive (or sustain on appeal) several sections of the Congressional Budget Act of 1974 [sections 301(i), 302(c), 302(f), 304(b), 310(d), 310(g), and 311(a)].
- The expiring provisions of Title 31 of the U.S. Code concern the President's obligation to submit budgets and supplemental budget estimates (and changes thereto) in a manner consistent with the requirements of the Deficit Control Act (and the Budget Enforcement Act).

Section 252 of the Deficit Control Act does not expire on September 30, 2002. However, the language of the section requires tracking of the budgetary effects of direct spending and revenue laws enacted before October 1, 2002. No tracking would occur for legislation enacted after that date. By operation of this section, the budgetary effects of direct spending and receipt legislation enacted before October 1, 2002, could trigger a sequestration in any fiscal year through 2006, when the remaining provisions of Part C of the Deficit Control Act expire.

Part II. Section 904(e) of the Congressional Budget and Impoundment Control Act of 1974, as amended by section 10119 of the Balanced Budget Act of 1997, provides that "Subsections (c)(2) and (d)(3) shall expire on September 30, 2002."

Those provisions constitute a rule of the Senate requiring a three-fifths vote to waive (or to sustain an appeal of a ruling of the Chair on) a point of order raised under the sections of the Congressional Budget Act and the Deficit Control Act of 1985 listed below.

Congressional Budget Act:

- Section 301(i) Social Security surplus reduction in budget resolution
- Section 302(c) consideration of appropriations before suballocation
- Section 302(f) legislation exceeds allocation level
- Section 310(g) Social Security change in reconciliation
- Section 311(a) legislation exceeds aggregate level
- Section 312(b) legislation exceeds discretionary spending level
- Section 312(c) maximum deficit amount exceeded

Deficit Control Act:

- Section 258(a)(4)(C) amendments to joint resolution suspending certain provisions in case of war or low-growth report
- Section 258A(b)(3)(C)(i) amendment to joint resolution modifying the sequestration order
- Sections 258B(f)(1), 258B(h)(1), and 258(h)(3) amendments regarding joint resolution approving President's decision on defense programs
- Section 258C(a)(5) special reconciliation bill exceeds maximum deficit amount
- Section 258C(b)(1) restrictions during consideration of special reconciliation bill

Chairman NUSSLE. My first question is basically this: as many times as the Congress waives the rules—we waived it on the tax bill, we'll waive it on the prescription drug bill, we'll waive it on every bill just about that we can think of to move through here—it doesn't mean that we don't respect it, but we'll waive it in order to make sure that everything fits as all the parts are moving through the process. As often as we waive them, why have them? I mean, have they really been effective as often as we have waived the rules?

Mr. CRIPPEN. I think certainly with large legislative efforts, whether it is a tax bill of some size or a minimum wage increase, the rules are there to remind you of the effects, but rarely are the rules a strong enough impediment to overcome the majority of the Congress.

Someone recently said they felt like their job was to be bumps in the road, speed bumps, and in some ways that's what this process is like, as well. It at least forces you to reflect more than 30 seconds on the budgetary consequences.

It is not unlike what we do when we try to assess the cost of mandates applied to State and local governments or other businesses. Those rules in the House never get waived—those points of order, I should say, in rule—so there is a willingness to enforce, or at least observe, that procedure, and it does bring to everyone's attention what the consequences are.

Beyond that is probably asking more than any process can deliver to deter the majority will of the Congress. There are times when we'd like to slow things down, and the Senate is supposed to do some of that, but a process, alone, is not going to overcome political will, as you well know.

Chairman NUSSLE. You said the Senate was supposed to slow things down?

Mr. CRIPPEN. They are.

Chairman NUSSLE. Just checking with your——

Mr. CRIPPEN. Yes.

Chairman NUSSLE. I wanted to make sure that was your testimony.

Then let me ask you it in a little bit different way. Because we are obviously these bumps in the road, these rules were developed during a time of deficits, and chronic deficits, at that, is there a better way, in your opinion, to construct these caps and PAYGO provisions during an era of surplus? Not only should they be extended—you've testified that that's what you would suggest—but is there a new way or a better way to construct this mousetrap during a time of surpluses as opposed to deficits?

Mr. CRIPPEN. I don't know that it makes a difference. Obviously, the political willingness of the House and the Senate changes with the fiscal outlook. I'm assuming that there is more willingness now to spend because it is easier to use surpluses than to overcome deficits. But, as far as a process, I'm not sure that there's a great distinction. A budget is a process in which one sets priorities, so you have to somehow set a limit and set priorities under it.

The emergence of the Social Security Trust Fund as a firewall, political or procedural, is a substitute for what we used to do in terms of trying to reduce deficits. Most of our deficit targets were based on unified budgets, so we tried to reduce 200 to 150 to 100 to zero. Well, we've gone beyond that—well beyond that now—so preserving at least some portion of that surplus by having a Social Security line or some other line you choose to establish seems to be important. You would want to then pay attention to your legislative activities, as you do—appropriations and mandatories—to make sure that in the future those lines aren't dramatically crossed.

I wouldn't want to say these are walls in effect that could never be crossed, because our estimates are uncertain, as you well know, and the economic and budgetary effects of being a few dollars on one side or the other of an artificial line are inconsequential. But as a target, a goal, or a new way of enforcing a budget, it seems to me to be the emerging and probably quite successful replacement.

Chairman NUSSLE. Do you have an opinion as to the length of time that we should establish caps? I understand there is a political and practical decision that has to be made, but, from your standpoint, just from budget management and what is doable, what is predictable, what's reasonable, what length of time would you suggest?

Mr. CRIPPEN. As long as the Congress wants.

Chairman NUSSLE. I knew that was the answer.

Mr. CRIPPEN. Yes. I would suggest a few years. I don't know whether that is 3 or 5. I think we have deluded ourselves in thinking that the long term—looking at longer and longer terms very precisely—is important or useful. We went during the first years of the Budget Act from a budget horizon of a few years, when Mr. Panetta and I worked together in 1981/1982/1983, to 4 years and then 5 years and then, of course, with the Senate's codification, 10. And the extensions became necessary, at least in the review of your committees, because people could figure out how to game the time horizon and go beyond 5 years or 4 years, but now we have, of course, the ability to go beyond 10 years.

And so the extensions of the time frames we work in haven't necessarily been helpful to preclude out-of-timeframe budget changes. I think they also contribute to a precision that is certainly not there, or an apparent precision, and I think that going back to a 5-year budget would probably be salutary.

In that regard, I'm not sure that a long timeframe for any extension of caps would be useful.

Chairman NUSSLE. One other question, just in light of Mr. Daniels' testimony. Does CBO anticipate any change in its estimates based on the stimulus effect of the tax cut that was just passed?

Mr. CRIPPEN. Not explicitly. We do not do what they were referring to or Mr. Daniels was referring to as "dynamic scoring" in that context, either, nor does the Joint Committee. I would say, however, there is a fair amount of dynamic scoring going on—that is, behavioral changes are assumed on both the spending and revenue side. The one thing that has not changed explicitly is the macroeconomic forecast because of differences in fiscal policy.

As Mitch said, there is a broad spectrum of folks who believe that fiscal policy has an effect. Again, I'd suggest that the last administration certainly thought that the change in fiscal policy in the early 1990's had a dramatic effect on the economy, and rightfully so.

So everyone knows there is an effect or agrees there is an effect, but there are a couple of important caveats to that. One, we don't know how large. I mean, it would be purely a guess. And, two, it depends on future political actions as to what the exact effect might be.

For example, the current tax bill could stimulate the economy, depending on how it is financed. If it just has to be replaced by future taxes, then it might actually hurt economic growth. If it is, as some would argue, paid for by a diminution of future Government spending, it could help economic growth in some models. So a lot of it depends on the assumptions one has to make about future political activity, what the Congress and the administration 10 and 20 years from now will do with fiscal policy, in order to even know the direction of the effect, let alone the precise number.

But certainly, as we do with everything else, baselines assume current policy. The stimulus effect of this tax cut or the rebates this fall will get built into a baseline, but not as an explicit result of this legislation.

Chairman NUSSLE. So what Mr. Daniels reported is correct, that even though there seems to be some general agreement, even though not agreement on how much, even though there is some agreement that there will be a stimulus, basically it is factored in now at zero?

Mr. CRIPPEN. Yes.

Chairman NUSSLE. OK. One other thing I would just report to you, since we have not had the opportunity—you may have caught this from my earlier statement, but Mr. Spratt and I intend to hold a hearing at mid-session as well as at the end of the year to review the progress of the budget. We believe it is important for us to review our role as a Budget Committee in this enforcement process. The news may not always be good, but we think it is important for us to get that news and to react to it. So, just for your purposes, we'd enjoy the opportunity to visit with you on exactly how we can construct that, since these are new items that have not been attempted before, evidently.

Mr. CRIPPEN. I look forward to that. It's a very good idea.

Chairman NUSSLE. Thank you.

Mr. Spratt.

Mr. SPRATT. Mr. Crippen, thank you for your testimony. It is good to see you ambulatory again.

Mr. CRIPPEN. Thank you. I'll try to stay that way.

Mr. SPRATT. I raised a question about the renewal of tax cuts. I think we probably knew—maybe Leon appreciated what we were doing when we said, "When you have the expiration of a popular tax cut, assume it will stay expired and not be renewed," but that leads to some overstatements of revenue and some distortion of projections at a fairly significant level. Right now the amount of renewals over the next 10 years of popular concessions in the code, I think, amounts to maybe $110 or $120 billion.

Can you think of a better way of doing that so that, if it were a popular tax concession that everybody would concede was likely to be renewed, you would factor in the renewal as opposed to an expiration?

Mr. CRIPPEN. I don't know of a better way. Obviously, whatever you tell us to do we'll do it however you'd like to see it, but it does take on the necessity of predicting future political action. Even if you think it is 99 percent certain, there is a possibility, albeit it very small, that it will not happen. There have been some hiatuses in the R&D tax credit, for example, where it actually did lapse for a number of months, 6 or 9 months at a time, but was ultimately enacted.

The AMT is a classic example. It is not going to go on the way it is, but when you decide to change it and how you decide to change it and how much you decide to change it are all up in the air.

Mr. SPRATT. The AMT is judgmental as to——

Mr. CRIPPEN. Yes, very much so.

Mr. SPRATT [continuing]. How it would be prepared or fixed.

Mr. CRIPPEN. Yes. But I would suggest to you that, while it is fairly certain some of these things will be renewed, just like the new tax bill, I don't know that you would want CBO in the position of trying to second-guess what you are going to do in the future on any of these.

Most of the differences, as you know, between any numbers that you've done on the back of a napkin versus others elsewhere downtown are mostly on assumptions about, indeed, what the Congress is going to do in the future.

As Mr. Daniels said, it may be kind of trite but true, if you don't spend all the monies in the budget resolution, then you will have a better fiscal outlook. But it still nonetheless begs the question of exactly what you do. As I think you and I were discussing a couple of weeks ago, there's close to $500 billion in the resolution 10-year numbers for reserves of one kind or another, for legislation that may well be enacted—pharmaceuticals, agriculture, health care, and other things. But when and how and how quickly it will go into effect, all of those things we don't know, and I'd hate to have us in the business of making those kinds of political predictions.

Again, you can and should distinguish some of the things that happen over and over, and maybe the time comes when you say, "Hey, we do assume excise taxes are extended. Maybe, but maybe it's time we did that with tax credits." But I think you need to tell us that. I don't think we are in a position to start making those judgments.

Mr. SPRATT. One of the aspects of your testimony that's useful is you point out that the BEA provisions are largely expiring in the near future, 2002, and I had been under the impression that PAYGO remained effective until 2006, but you point out that the PAYGO scorecard will be repealed or will expire, so the principal enforcement mechanism will be gone unless we renew it.

Mr. CRIPPEN. Yes. The extension or the life through 2006 is for legislation that would have passed prior to the expiration in 2002 so that there is the ability to look back, and if it wasn't actually paid for, then you have another potential look at legislation or the effects of legislation. But it is for any legislation that passed prior to the end of 2002, so, as you just said, the strength of the mechanism really expires in 2002.

Mr. SPRATT. Well, if we want to have a PAYGO rule at all, we have to renew it——

Mr. CRIPPEN. Yes.

Mr. SPRATT [continuing]. In the near future. In addition, you offered up the thought that in the renewal we might deal with some discrepancies in the way OMB and CBO book entries on the PAYGO scorecard. In your case, I believe you—where we have Government receipts, you book that as an entry on the scorecard, but OMB treats it as an offset and includes it under discretionary spending.

Do you have a preference for how that discrepancy would be worked out?

Mr. CRIPPEN. Well, we think we have it right, of course, but more importantly than being right is more conformity. Let me take the opportunity, if I could with this question, just to tell the committee that I believe and have for some time that it may be time for another Budget Concepts Commission. We haven't had one, as you know, since 1967, and there are a lot of new issues, not only around the surplus but Social Security privatization and trust funds and a whole range of issues that weren't addressed very explicitly in 1967 because they hadn't developed. So I would urge the committee to think about—and this is one small example that I cited in my testimony as the kinds of things the commission might look like.

Mr. SPRATT. Well, this has major implications, and Richard Kogan, whom you know, was our corporate memory and authority on budget authority for the budget process for a long time, used to make the persuasive argument that, while this gave the appropriators some additional capacity, it was also an inducement to them to look for ways to find offsetting receipts. You're telling them, "If you can find them within your purview of your programs, we'll let you keep it, or we'll at lest consider that. It will be an offset to the gross amount of spending you've got." And so the folks that knew the programs best would be down there looking for ways to save the Government money with offsetting receipts.

Mr. CRIPPEN. But increasingly those offsetting receipts have less to do with the programs under the jurisdiction and more to do with opportunities, if you will, of where revenues can be raised. I think—and if Barry Anderson is here he can tell me, because he was there during that time—I think the OMB treatment is one of the rules that were established that said the committee who takes the action effectively gets the credit. It is not so much that the rule acknowledges that the appropriators are raising revenues in their jurisdiction or with their programs, but simply that the appropriators took action, so they get credit for raising the revenues.

Mr. SPRATT. Yes.

Mr. CRIPPEN. So it is less a user fee than it used to be and more a revenue-generating source, so that's why we think we're doing it right.

Mr. SPRATT. Well, thanks for your testimony. We look forward to working with you as we deal with these problems in the near future.

Mr. CRIPPEN. Thank you.

Chairman NUSSLE. Are there other Members who wish to inquire of the CBO director? Mr. Bass.

Mr. BASS. Thank you, Mr. Chairman.

Mr. Crippen, I just read here that you are expected to reduce your estimates of the 10-year surplus by as much as $200 billion; is that correct?

Mr. CRIPPEN. I don't know. As I was trying to say earlier, we have just started the process that produces our midyear review, which will be out in August, and until we have done that I can't tell you what the effect of any of this is going to be. My guess is the 10-year surplus will be slightly smaller, given the current slowdown in the economy. Remember, however, that our long-term projections include the assumption of some cyclicality.

Mr. BASS. What kind of a factor did you build into the long-term assumptions?

Mr. CRIPPEN. There is, in fact, a very explicit example in our January report.

Mr. BASS. Can you recall what that is? I can't.

Mr. CRIPPEN. I don't.

Mr. BASS. Was it 100 or 150 billion, something like that?

Mr. CRIPPEN. Sounds probably about right.

Mr. BASS. So it is possible—and I don't want you to answer hypotheticals since we haven't reached August yet—that it could go up by $50 billion. It could. There's a possibility of that?

Mr. CRIPPEN. Sure. I think that right now everything would suggest that the previous estimate of $5.6 trillion would be slightly less, and there's not much chance it would go higher. But how much less I don't know.

Mr. BASS. And your August estimates obviously will include the impact of the tax relief package——

Mr. CRIPPEN. Yes.

Mr. BASS [continuing]. Signed into law?

Mr. CRIPPEN. Yes.

Mr. BASS. Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

Mr. Crippen, I will say if it is 200 billion—I appreciate the fact you all don't know—it is a little startling, because I remember I guess late this winter when we met with your staff—and I think you were out—we asked about the concept if you had a slight recession—and we don't know whether we've had a recession or not, but we know we have been growing slowly—that I seem to recall the figure that you all assumed was about $100 billion over 10 years, and now you're talking about $200 billion or $150 billion, so a 50 to 100 percent increase. So I guess that just underscores the volatility of these numbers and the margin of error in long-term projections.

Mr. CRIPPEN. The 200 is not our number, I think, Mr. Bentsen, but be that as it may, it does underscore the uncertainty. We have tried each year, particularly again this year in our January report, to show the uncertainty that surrounds any of these numbers.

This process requires that we give you an estimate that has a specific number.

Mr. BENTSEN. Right.

Mr. CRIPPEN. And it is that number, plus or minus something, and the longer or further out you go the more uncertain it is.

I would say, too, that in our long-term projections we don't assume exactly when a recession might occur. The fact that it is occurring at the beginning of the current 10-year period has a little more impact——

Mr. BENTSEN. Right.

Mr. CRIPPEN [continuing]. Than if it were the ninth year, as you well know.

Mr. BENTSEN. Right. You talk about the surpluses to Medicare and Social Security surplus as a high-class problem, and you're right as compared to the 1980's and early 1990's, and I guess my question is, you know, the previous witness, Mr. Daniels, and the White House take issue with the political concept of treating the Medicare trust funds as de facto off budget, or at least the part A as de facto off budget and being pledged—and I would argue it is pledged—and you talk about the long-term projections with your chart of growing demand on the entitlement programs, and at the same time we hear discussion about both Medicare reform, whatever that may be, as well as Social Security privatization, both of which would indicate without substantial reductions in outlays would require greater expenditures.

I guess my question is: if we take the administration's concept of coupling part A and part B and then talk about reforms and use monies out of part A that are otherwise obligated for debt payments, do we worsen the situation going forward with your chart that you are carrying around because we, in effect, are spending now and leveraging against the future? And does that exacerbate your chart?

Mr. CRIPPEN. In the interest of full disclosure, as many of your colleagues know, I am a trust fund skeptic. That is, the trust funds serve a very useful purpose, but they don't tell us a lot necessarily about budgetary or economic consequences.

The part A trust fund is kind of a classic example. It is currently in surplus in part because the Congress chose a few years ago to change the classification of the payments, taking home health care out of part A and putting it in part B for whatever reason. I mean, there may be good reasons for it. But the point is these are accounting devices, as one of my predecessors called them, so they have some import, but this chart essentially wouldn't change whether you had a trust fund or not.

We assume, I guess as a matter of law, that benefits will be paid no matter what the trust fund balances are, both for Social Security and Medicare.

Mr. BENTSEN. Well, I guess——

Mr. CRIPPEN. So under current program definitions, this is roughly what the future might look like, and what you do with the HI trust fund won't change this picture.

Mr. BENTSEN. Then perhaps we would look at a different chart. If we decided not to use "trust fund" monies now, Part A surplus is now receipts for paying down debt. Would that change your debt chart and your outlay chart to comport with this chart here?

Mr. CRIPPEN. Yes.

Mr. BENTSEN. To the worse or to the better?

Mr. CRIPPEN. Well, it's $350 or $400 billion over 10 years. It might change it slightly, but not much.

Clearly, we believe—CBO as an institution believes—that paying down debt in the main is helpful for this problem, primarily because it might help economic growth. That's one of the two numbers for this chart, so the more debt that is paid down in that sense the better.

However, there is a limit, as we've also testified repeatedly, to how much debt we think you can pay down in absolute terms. Whether or not the HI trust fund is necessary or can pay down debt is another question.

But the general statement is true that we believe institutionally that paying down debt helps this problem in the future.

Mr. BENTSEN. Thank you.

Thank you, Mr. Chairman.

Chairman NUSSLE. Thank you.

Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman.

Mr. Crippen, let me add my welcome and go back to the statement with which you began your testimony, namely, that a budget without budget enforcement is honored only in the breach.

I want to ask you a couple of questions by way of elaborating on the relation of that statement to our present situation.

Mr. CRIPPEN. Yes.

Mr. PRICE. First of all, there must be a point at which waiver after waiver after waiver does add up to a breach, and my basic question is: are we near or over that line at present? And are we at risk of going over that line if the menu of tax cuts that seem to be on the way to Capitol Hill, in fact, are enacted by the Congress?

Assuming that some kind of light ought to go off if we are using the Medicare or Social Security surplus, are we about to cross that line?

Would and should PAYGO apply to undoing the sunsets in the tax bill, for example, to extending the R&D tax credit, to providing tax incentives for health insurance coverage, for providing tax incentives for energy savings, for providing tax breaks for small businesses? All of these things are very live agenda items here and I think raise this basic question.

Secondly, is there a problem with regard to the PAYGO time frame? Mr. Spratt began to get into this. Let me just ask a little more precisely. Should the budget process require that legislation be phased in well before the end of a budget window—for example, maybe in a 10-year window phasing in at least within a 5-year period?

Should the budget process perhaps prohibit the enactment of tax reductions that are effectively only several years into the future? What about the PAYGO time frame, and how should we be thinking about this if we don't want to have so many gimmicks and so many phase-ins and phase-outs that actually these constraints don't amount to much?

Mr. CRIPPEN. Mr. Price, you may have to remind me of the first question, but let me start with the second.

As I said a little earlier, and I have been saying, I think, fairly consistently, I think a shorter budget window like the 5-year window that we used to have is probably more meaningful in many ways than a 10-year window, so I would urge you to think about at least trying to bring us back to that.

For estimates beyond year five, while there is some demographic information we can incorporate—such as the number of people retiring—our economic assumptions are pretty much straight lines. We don't know anything about what is going to happen. We have a hard time with the next quarter, let alone the next decade.

So I would encourage us to think about a budget process as we currently envision it as a shorter timeframe.

Mr. PRICE. But whatever the timeframe is, though——

Mr. CRIPPEN. Whatever the timeframe is——

Mr. PRICE [continuing]. What about the phase-in problem?

Mr. CRIPPEN. The phase-ins are not little. In fact, that's why the timeframe got extended, and it works on both sides of the budget, frankly. Mr. Waxman is a terrific legislator and keeps coming back at things that he thinks needs to be done. One of the things in the 1987 package, for example, the budget package that was put together after the crash, had increasing the eligibility age for children for Medicaid from 6 years to 18 years 1 year at a time, so every year it went up 1 year. I'm assuming we are now pretty well phased in. But it was not, you know, probably terrific policy that justified the phasing in just like these tax cuts are, but the phase-in was due to trying to spread out the impact in the future.

There is always going to be an incentive to do that, no matter what the length of the window. You might want to try prohibiting or somehow making a stronger point of order against provisions that aren't fully phased in by whatever the window is, as you suggested.

Clearly, you want to know that, and the further out these things become effective the less we know about how to estimate them.

All in all, we are in better shape.

Mr. PRICE. Could you quickly address my first question having to do with how closely that——

Mr. CRIPPEN. PAYGO is still on the books. It is up to you to enforce it effectively. I mean, the first tax cut is on the PAYGO scorecard now and likely will be waived at the end of the year, I'm assuming, because they are pretty big numbers and you wouldn't want a sequester of that size. PAYGO is still in effect, and whether you enforce it one bill at a time or at the end of the year, you have the tool in place but it will be up to the Congress to use it.

Mr. PRICE. A tool that surely isn't being used at present.

Mr. CRIPPEN. Well, we'll see at the end of the year. I mean, I'm predicting—I shouldn't—that the scorecard will be cleaned, but right now there is a substantial balance on that PAYGO scorecard that if the Congress takes no further action would require OMB to issue a sequester this fall.

Mr. PRICE. Thank you.

Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Clement.

Mr. CLEMENT. Thank you, Mr. Chairman.

Mr. Crippen, I know you said we'll have some new numbers as of August.

Mr. CRIPPEN. Yes.

Mr. CLEMENT. What economic forces and technical developments have we seen since January that would influence the level of the budget surplus or deficit, and which of those developments are positive and which are negative?

Mr. CRIPPEN. Mostly what we've seen is a slower-growing economy than we anticipated in January for this current fiscal year. Some of that, much of that in fact, is coming on the capital sector side. Business investment has not kept pace with what it has been in the past. But consumers are still doing their usual bit and generally keeping the economy going. Housing starts and the housing market, for example, are fairly robust. So there are pieces of the economy that look fine; the weakness, however, is enough to bring economic growth below what we thought it would be at this time come January.

There is also, our advisors think, some possibility of a slight increase in inflation over what we had predicted in the short run—again, just foreseeable for a year or two. In an odd way that increase would be positive for revenues because we collect revenues on the basis of nominal incomes, not real incomes. So in that sense that increase could help the budget outlook, even though it may not be good, in the long run, for the economy.

So the weakness in the economy is the primary negative thing that has changed. We haven't seen, as I suggested earlier, anything yet to make us think that productivity, which has been up the past 3 or 4 years, is going to be dramatically affected here. Productivity measures always go down in a recession, but we expect them to jump back up as the economy grows.

So it is short term at this point. It is weakness in economic growth primarily and will therefore show up in revenues, not in spending as much.

Mr. CLEMENT. Now, were you going to come out with these numbers anyway in all this, or is this something you've added?

Mr. CRIPPEN. No. It's something we've done traditionally every year. OMB does something called a "Mid-Session Review." This is the parallel to that. We have traditionally done it in August, finalized the report and issued it in August. The last couple of years the Budget Committees have asked us to produce it earlier, so we produced it in July, but this year we are back on the normal schedule, so come August we will issue it. But it is very traditional. I can't tell you if we've done it all 25 years of our existence, but certainly——

Mr. CLEMENT. And the Federal Reserve Board is expected to cut interest rates again today.

Mr. CRIPPEN. Yes.

Mr. CLEMENT. This would be the sixth time this year. What effect do you anticipate this having on the economic forecast and what effect have the past rate cuts had on your projection?

Mr. CRIPPEN. We assume that the Federal Reserve has fixed targets in mind for unemployment and the economy, so we assume that it is taking these actions to try and get back to those targets. We're probably in a very similar ballpark in terms of what we think potential GDP, and what we think the economy can do, how it can grow. So in that sense the Fed is trying to get back to its forecast, which would be similar to ours, so we believe that its change in monetary policy will be helpful but get us back to where we were, not more or less than that.

Mr. CLEMENT. I was going to also follow up—and it you've really already answered the question anyway—about the 10-year forecast versus the 5-year, and so you feel very strongly that when you get beyond 5 years then those numbers get to be rather unreliable?

Mr. CRIPPEN. Yes. I might not choose "unreliable," but you're right. There is some more information we can factor in in years 5 to 10—the number of people retiring, children who have already been born who will be in need of education, those kinds of things, demographic factors. But as far as economic performance, we, as I said, take essentially a straight line from years 5 through 10 of what we think the economy is going to do.

Mr. CLEMENT. As you know, I asked the question do you foresee surpluses as far as the eye can see?

Mr. CRIPPEN. Well, it depends on how good your vision is. We foresee them for this 10 years, depending, of course, on what the Congress does in terms of future action. I mean, you could pass legislation that could clearly dissipate the surpluses. But if your eye can see as far as this chart, which includes the retirement of the Baby Boomers, clearly there are no surpluses in that future. In fact, there are hard decisions on spending for retirees, spending for the rest of the Government, tax increases, or debt increases.

And so it won't take too long before—just beyond this 10-year window—things start to go the other way and surpluses become once again deficits. It all depends on how far you can see, but I would suggest we ought to begin looking at the retirement between 2010 and 2030.

Mr. CLEMENT. Thank you.

Chairman NUSSLE. Mr. Crippen, thank you for your service and the service of all of the folks down at the Congressional Budget Office. In particular, I want to thank Mr. Anderson, who is here today, too. He did, as I said, a fine job of testifying up here while you were not able to be here, and I want to thank him as well and welcome him back. We appreciate your testimony today and any advice that you'll continue to give us, I'm sure, as we work through these issues.

Mr. CRIPPEN. You always hate to have it proved that you're really not necessary. [Laughter.]

Thank you, Mr. Chairman.

Chairman NUSSLE. Thank you.

The next panel that we have here today is a very distinguished panel of former chairmen of the Budget Committees and people from the private sector who have some interest in these issues and have demonstrated their expertise in the past before the committee. I want to welcome back to the committee former Chairman Leon Panetta.

I've always appreciated your work, but I have to tell you that I have a much deeper respect for your work and the job that you did, now having had the opportunity to sit in your chair up here during the process of one cycle. You have been through many more cycles than I have been, so I don't presume to understand all that you went through and have the experience that you have. But I can tell you from my brief tenure here as chairman that I have a new, much deeper respect for the job that you did not only here in Congress but also at the Office of Management and Budget. They are difficult roles to play, and even though no one possibly can agree on every single issue, you did them well and we welcome you back. We welcome Carol Cox Wait back to the committee. Thank you very much for coming today to visit with us on these issues, as well as Kevin Hassett from the American Enterprise Institute. We welcome you back. When Mr. Sabo gets here, we'll give him a special welcome, as well.

Why don't we begin, Mr. Panetta.

STATEMENT OF HON. LEON PANETTA, FORMER MEMBER OF CONGRESS, FORMER CHAIRMAN, COMMITTEE ON THE BUDGET; CAROL COX WAIT, PRESIDENT, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET; HON. MARTIN OLAV SABO (D-MN), FORMER CHAIRMAN, COMMITTEE ON THE BUDGET; AND KEVIN A. HASSETT, RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE

STATEMENT OF LEON PANETTA

Mr. PANETTA. Thank you very much, Mr. Chairman.

Chairman NUSSLE. Mr. Panetta, thank you so much for coming back. Give us your testimony, please.

Mr. PANETTA. Thank you. I apologize for not having written testimony, but I'm working off of notes and, very frankly, the notes are pretty simple and clear.

Chairman NUSSLE. Well, you know the rules of the committee. All right. Next? [Laughter.]

Mr. PANETTA. It is good to be back in this hearing room and it is good to be back before this committee. I spent something like 25 years of my life in one capacity or another, either as a member of this committee or as chairman of this committee or as director of OMB testifying in front of this committee, and even as chief of staff working with many members of this committee.

I want to commend all of you. It is not an easy job, but I really do appreciate those that carry the banner forward, because it is extremely important that we hopefully maintain some kind of economic and fiscal integrity for this country.

My hope is always that, in facing the difficult choices that we had to face and difficult battles during what were called "the deficit years," that you might have it a little easier in the so-called "surplus years," but it is obvious that I think you're facing some very tough decisions, very difficult decisions, very similar to what we faced over the last 25 years.

I guess my hope is that you are wise enough to learn from the lessons of the past and hopefully not repeat the mistakes that were made.

I think the most fundamental decision that you have to make is a decision that goes to the core of how we govern our democracy. We can either govern it through crisis or we can govern it through leadership. One or the other things get done either through crisis or through leadership.

The last 4 years the budget process, at least in my estimate, has been largely determined by crisis. Budget resolutions have, for whatever reason, not been enforceable. Appropriations bills have been vetoed or delayed beyond the end of the fiscal year, and with the threat of a Government shutdown ultimately what happens is there is a negotiated deal between the President and the Congress.

You can decide whether that kind of crisis scenario is what will happen this year, as well, in which event, very frankly, there's probably very little you can do on caps or PAYGO or any kind of budget enforcement. Essentially, crisis will dominate it and crisis will ultimately cut the deal.

If, on the other hand, this committee, the leadership of this committee, with the support, hopefully, of the bipartisan leadership of the Congress, decides that it is important to have a budget process that maintains fiscal discipline, and that you want that discipline to be realistic and relevant and enforceable, then I think the goal can be achieved of restoring the credibility of the budget process and making it effective in trying to protect the Nation's fiscal integrity.

But I realize that will not be easy. These are tough decisions. It was not easy to deal with $300 billion annual deficits.

It demands some sense of sacrifice from both parties. Budget discipline cannot be based on the approach that one party gets to be able to spend everything it wants to spend on its priorities and the other party gets nothing, because ultimately that just doesn't work. Both parties have to be willing to compromise if limited resources are to be protected for the future—pay down the debt to protect Social Security and the Medicare trust fund and to promote national savings for this country.

You cannot enforce caps—I know this is a hearing about caps and PAYGO, but let me say something right off. You cannot enforce caps and you can't enforce any kind of PAYGO requirement—they simply do not work—unless there is bipartisan agreement as to the numbers and the process, unless there are realistic numbers that try too, at the very least, meet national priorities that are out there, and if there isn't a strong commitment by the leadership and by this committee to enforce a set of ground rules that protect budget discipline.

You have to be able to allow priorities. Obviously, there will always be competing priorities, but the competing priorities for limited resources have to take place within a structure. That's the lesson of the budget process. It's the lesson of history.

Budget resolutions, frankly, in the 1970's had very little enforcement but there was an awful lot of bipartisanship that helped make those budget resolutions effective. The first reconciliation bill that was done in 1981 was done on a bipartisan basis—myself, Pete Domenici, Howard Baker, Tom Foley, and many others worked on that, and that's the way it was put into use.

The first use of caps and the PAYGO were part of an agreement between President Bush and the Congress, and they were drafted, incidentally, by the bipartisan staffs, both Republicans and Democrats helped work on the draft for both caps and PAYGO, and they were obviously supported not only by President Bush but by Bob Dole, George Mitchell, Tom Foley, Bob Michael, and if it wasn't for that consensus they simply would not have worked.

I have to tell you they are extremely important enforcement tools. We would not have a balanced budget today were it not for those enforcement tools, and I think it is fair to say that you cannot maintain a balanced budget in the future without those enforcement tools, as well.

As I said, they have to be realistic and they have to obviously reflect the priorities that both parties are trying to seek for the Nation.

What you don't want to do is to go back to a borrow and spend kind of approach and with competing priorities. And there are a lot of competing priorities this year. You know them all, from tax cuts to prescription drugs to education, etc.

What will happen is, in order to try to meet those responsibilities, you're going to have to do either one of two things. You're going to have to try to push deep cuts in spending, which are tough to do. You're going to have to either raise taxes or revise the tax cut, which is going to be also equally difficult to do. Or you're going to wind up borrowing from the Medicare trust fund, which is the easy approach, and that's what happened in the past. It's tough to cut spending, it's tough to raise taxes, so what happened was that there was a borrow and spend approach. You've got to avoid that at all costs.

You obviously are facing some tough numbers this year. You know them better than I do, but I think, from the indications that I can see, we are headed toward deep trouble, or certainly a slippery slope that will take you back to either invading the Medicare trust fund or to going back ultimately to deficit spending, and I would hope that this committee would do everything possible to ensure that that does not happen.

If you're going to do it, let me just suggest there are three steps that are important.

One, you have to protect Social Security and the Medicare trust fund. I think that is important not only to reducing the debt but meeting those unfunded liabilities that are out there in the future.

Secondly, you should establish realistic caps on discretionary spending for the next 5 years. I wouldn't go beyond that. I would do 5 years. You might even want to do three. But at least make those caps realistic, both in terms of Defense and non-Defense needs.

And, thirdly, you ought to establish the PAYGO principle. I think the best way to implement it in a surplus world is to try to set aside a portion of that surplus to try to be able to pay for priorities that you identify as a committee, but anything beyond that ought to be required PAYGO, which means that if you want to do tax cuts or you want to do additional spending you have to find ways to pay for it.

Let me tell you, the PAYGO requirement saved us because there were efforts to obviously implement huge tax cuts, there were efforts to try to implement new entitlement programs. If we didn't have a PAYGO requirement, we would not have been able to maintain discipline.

As I said, the importance is to try to establish some kind of common ground rules. I think the purpose here of this committee is to try to ensure that you do what is important to restore the credibility of the budget process. This is an important process. This is about the only discipline that you have in the Congress to try to ensure that Members and committees try to adhere to some kind of guidelines.

But, more importantly, you've got to restore credibility to our democracy, as well.

Let me just conclude by telling you in our Institute for Public Policy, we do polls of students' attitudes toward Government, and we've just completed a poll. Of those polled, 73 percent said they would never choose a career in public life. The reason they said they would never choose a career in public life—there were a lot of reasons, but they also said that what happens here in Washington is simply not relevant to their lives, that there is a partisan game that goes on here that doesn't really relate to their lives.

I think you've got to change that. We all have a responsibility to change those attitudes, because they are our future. In trying to restore the process here, you can make it relevant to their lives, but, more importantly, you can ensure that our democracy is guided by leadership, not crisis.

Chairman NUSSLE. Thank you very much for your testimony.

Carol Cox Wait is the president of the Committee for a Responsible Federal Budget and, as I've said, has testified here often, on many occasions. We appreciate the fact that you would come today to share your ideas on budget discipline and on the caps and PAYGO.

Welcome, and we will accept your testimony.

STATEMENT OF CAROL COX WAIT

Ms. WAIT. Thank you, Mr. Chairman, Mr. Spratt, members of the committee.

It should surprise nobody that I want to associate myself with the remarks of Mr. Panetta. He's on my board. I need to stay out of trouble if I possibly can.

I'm, frankly, astonished at the questions asked at this hearing. As I say in my written testimony, the budget process is like a policeman on the beat, and the only way you'll ever really know how effective it is is to get rid of the cops. But I don't think, no matter how bad the murder and mayhem, no matter how many points of order you waive, or whatever, that we want to try living in a lawless society, a society without rules, without budget enforcement. I think it is a preposterous suggestion.

And so my first and most important message to you is of course you have to extend the enforcement provisions in BEA. And I'll talk a little bit about some things I think you need to do to make them work better in the current circumstances.

I'm not trying to turn this into a hearing on systemic reform. I know you are going to have one on that later on. I hope we'll be back to talk to you about it. As you know, we are deeply interested in the topic. We do believe that the budget process, itself, ought to be outcomes neutral. We think there's at least one important step you can take in that direction as you extend the caps and the PAYGO provisions in the BEA.

With respect to PAYGO, the current act is ambiguous, to say the least. We think that the budget resolution ought to specify each year the amount is to be available for tax cuts or entitlement increases or whatever. You can bifurcate, i.e., separate spending increases and tax cuts, if you want.

Any amounts over that, any bills that would use up surpluses beyond those amounts should be subject to old-fashioned PAYGO enforcement. Congress and the President should be required to raise the money or cut other entitlements to offset those amounts. If you don't do that you ought to have sequesters.

One thing you ought to do is that you ought to live in a more realistic world. Once you do, you ought to let the sequesters happen if you don't stay within the limits that you impose.

This would work better if you had a joint budget resolution because it would formally bring the President into the process. It should surprise nobody here that a joint budget resolution is our top priority in terms of budget process reform. We continue to believe that, so long as the two policy branches of Government fail to agree on one budget, the country really doesn't have a budget at all.

The approach we suggest offers an acceptable short-term fix—that it is a mechanism for you to resolve the dilemma that exists under the PAYGO rules today. Under current rules either all of the on-budget surplus is available or none is available, and it is a political issue.

Frankly, Mr. Spratt, this approach could deal with your concern about expiring tax provisions, as well. These are political issues. The politicians settle them. You ought to spell out, when you adopt the budget resolution, what is going to count for PAYGO and what isn't and how much you've got available for tax cuts and/or entitlement increases. Anything beyond that ought to be subject to PAYGO provisions.

I can't think of a better way to do that than to give the politicians the job. You guys and gals have the election certificates on the wall. It is not only your job, it is the only practical way to enforce the budget.

Writing arbitrary rules, trying to determine outcomes in your process, only makes your burden in enforcing the budget much more difficult than it needs to be.

That also brings me to the issue of caps. Unlike much of what you've read recently, that the discretionary caps have proven to be surprisingly effective so long as they have been reasonable—that is to say, viewed as reasonable—and within the first few years after they are enacted. The longer you go or the more unrealistic they are viewed as being, the less effective that they are.

You should amend and extend the discretionary caps as soon as possible. One of the most important messages we have for you today is that we would strongly urge you, Mr. Nussle and Mr. Spratt, Mr. Domenici, Mr. Conrad, and whomever else you need to get in a room to get there as quick as you can and agree on what you think are the right caps, at least for the balance of this Congress—I would like to see it the caps at least a year beyond that—and write them into law.

It probably doesn't surprise anybody here: I think the Government somehow, some way, probably could get by on $661 billion in new budget authority next year. But it isn't for me to say. It is important that you arrive at numbers that you can live with.

You might as well get together, get on the floor of the House and Senate, have a debate about how much is too much. The sooner you do it, the less money we are going to spend.

I haven't talked to anybody in the budget community who doesn't believe that.

Mr. Nussle, to those on your side who say they won't vote for any more than 661, it is going to cost them every day they delay putting those new caps in place.

I don't have much else other than my prepared testimony, and the red light is on, anyway, so I'll stop there and defer to you and any questions that you may have.

Chairman NUSSLE. Thank you very much.

[The prepared statement of Carol Cox Wait follows:]

PREPARED STATEMENT OF CAROL COX WAIT, PRESIDENT, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Mr. Chairman, Mr. Spratt, members of the committee, thank you for the opportunity to testify before you today.

The Budget process is like a cop on the corner. You cannot truly measure the patrolman's effectiveness until and unless you are willing to terminate his services. We all get angry when folks break the law; but I for one am not ready for life in a lawless society. Thus it seems clear to me that you must extend the Budget Enforcement Act (BEA).

Most of you know that the Committee for a Responsible Federal Budget and I personally believe that it is past time for systemic budget process reform. But it is late in the year to launch a major reform effort.

The caps, PAYGO rules and sequester provisions in BEA expire next year. If you do not extend those provisions there will be no enforcement rules at all. That could be the functional equivalent of laying off the entire police force. It is a very bad idea.

BEA was written as part of an effort to reduce deficits and balance the budget. Today you are managing fiscal policy in a surplus environment. Even as part of simple BEA extension, you should make at least one change to recognize this dramatically changed reality.

I am not trying to turn this into systemic process reform but some changes will not wait.

Do/Should PAYGO rules apply to on-budget surpluses? The law is ambiguous.

The Clinton administration first said no then they changed their minds and said yes. The Bush administration has not articulated a position-but the budget treats on-budget surpluses as available and allocates them to a variety of purposes including tax cuts and new/increased direct spending programs.

Our committee believes that the budget process should be outcomes neutral. The controversy over PAYGO and on-budget surpluses may offer an opportunity to move in that direction.

We suggest that you extend PAYGO but make a modest change. We think the budget resolution should specify the amount of on-budget surplus to be available each year for tax cuts and for direct spending increases.

We think that PAYGO rules and sequestration should apply to any tax cuts and/or direct spending increases in excess of the amounts specified in the most recent version of the budget resolution. This might work better if the budget resolution were intended to become law-requiring a presidential signature and subject to veto.

But this strikes us as an acceptable short-term fix.

We don't think you should write into process legislation specific amounts or percentages of surpluses to be available without triggering PAYGO and sequestration.

If you try to do so, we predict that your efforts will fail. The question of how much surplus should be available to offset current legislative change is a political problem. We advise you to establish systems to settle it politically.

And that brings me to the issue of caps. Discretionary spending caps have proven to be surprisingly effective, except when they are several years old and viewed as unrealistic.

You should amend and extend the discretionary caps and sequestration rules as quickly as possible. Indeed, we think that you should write into law new caps for the balance of this Congress just as quickly as possible.

Personally, think that the country ought to be able to get by on the $661 billion provided for discretionary spending in FY 2002 in the budget resolution.

You all can argue about whether that is enough. You can figure out whether and how much more is needed for defense. That is your job. You have election certificates on your walls.

I can predict with certainty, however, that the sooner you enact new caps the lower total appropriations will be when all is said and done.

Indeed, we believe this to be so urgent that would recommend to your Chairman and Ranking Member that they get together and try to add new caps for FY 2002 and FY 2003 to the supplemental that currently is in conference.

Some will say you cannot add caps to the supplemental, because that strategy would require 60 votes in the Senate. But it is going to take 60 votes to enact new caps no matter when the Senate acts. And let me repeat early action on new caps will save money in the long run.

I have not talked about fundamental budget process reform. I understand that you will take up the broader issues in the near future. When you do, we hope to work with you. We believe that this may be one of the most important tasks facing your committee.

In the meantime, we confess to some confusion and dismay. Surely there can be no doubt about BEA extension. Simply to allow BEA to expire is a terrible idea. Of course you must extend the enforcement provisions in BEA. We cannot live without rules. How can this be an issue? We urge you to act quickly and lay it to rest.

Chairman NUSSLE. Next I'd like to call on a former chairman of the Budget Committee.

As I said to Chairman Panetta, Mr. Sabo, I said that I always appreciated the job that the chairman of the Budget Committee did, but now I have a much deeper respect for that job, having had the chance to sit in your chair, as well, for the brief time that I have been here.

We welcome you back, and we are very interested in what you would like to present to us as far as budget enforcement issues. We know you have been involved in this in the past, as well, and now that we are at this unique opportunity we wanted to get your advice, so please provide us with your ideas.

STATEMENT OF HON. MARTIN OLAV SABO (D-MN), FORMER CHAIRMAN, COMMITTEE ON THE BUDGET

Mr. SABO. Well, thank you, Mr. Chairman, Mr. Spratt, Mr. Clement, and fellow panelists.

When Tom called a couple of days ago and asked me to come, I, frankly, had not thought much about these issues, and I have a limited amount since, so, whatever I say today, I might change my mind in a couple of days. [Laughter.]

Chairman NUSSLE. We'll give you permission to revise and extend your remarks. How about that?

Mr. SABO. I do not have precise answers, so I'm musing, I'm thinking out loud.

Clearly, the caps and PAYGO worked very well through the 1990's in most cases. I think the PAYGO worked generally throughout the 1990's. The caps worked when they were close to reality, and they were an important ingredient of the 1990 act and the 1993 act and for the first couple of years of the 1997 act.

I am not sure how you put it back together today. We are so far away from PAYGO this year that—both on the tax side and on the spending side—it's hard to put back in. It's gone for now.

I suppose to the degree that you assume that, whatever you say in the budget resolution is fine and anybody who wants to go beyond that, is subject to PAYGO may have some merit, but that is a very limited version of PAYGO.

Caps worked, but clearly when they become unrealistic they don't work. It is my judgment that over the last couple of years, with some significant revision of the caps early on, we would have spent less money than we did getting the caps in place and then totally ignoring them at the end, and operating with what I thought were totally unrealistic budget resolutions. When budget resolutions are unrealistic, the caps don't work. That was the history of Gramm-Rudman-Hollings. You know, it maybe worked for a year or two and then it was totally removed from reality, and it totally fell apart.

In that relationship between caps and pay-as-you-go, I think if you have caps that are unrealistic you build the pressure for creation of more entitlements to get around the caps which have been exploding in the latter years, or for programs that, if not entitlements, are exempt from the caps, like our transportation program. A major effort on CARA a year ago, which ended up not passing, looked like that. But all of those attempts were to get around the effect of overly-tight caps where there was significant support for a program to, in effect, adopt a mandatory program.

We have been going to mandatory programs significantly in recent years. We all have talked about modifying entitlements and then, instead of modifying or scaling backwards, expanding the number of programs that exist. I don't think that's a plus.

I think you also have to think through the years of budget. What upset me more than anything about this year has been the 10-year budget. I don't know how we got to that except both Presidential candidates, in both primary and general, had competing 10-year plans. That is atrocious.

There's one thing I know for certain about those long-term surplus projections, expenditure projections, and revenue estimates—they are wrong, and wrong by billions and billions and billions of dollars.

I don't know what directs them. They may be high. They may be low. But experience tells us we aren't even going to be close to on target, and we start writing in law, whether spending or tax, that we phase in over a 10-year period of time. To me, that's about the worst thing we can do in terms of responsible budgeting.

We went, I think, a significant way toward responsible budgeting with the 5-year budget to avoid people writing in things at the end of a 1-year budget. Instead, it has just gotten worse and worse. The longer we make the budget term, the more people write in provisions toward the end which have greater impact on long-term expenditures. And now we are at a 10-year budget and phasing things in for the 11th year. That just simply has to stop.

I see the red light is on. Those are some of my random thoughts at this point in time.

Chairman NUSSLE. I appreciate that. Thank you very much.

Last but certainly not least, Mr. Kevin Hassett. Dr. Hassett is the resident scholar from the American Enterprise Institute.

Welcome to the committee, and we appreciate hearing your testimony.

STATEMENT OF KEVIN A. HASSETT

Mr. HASSETT. Thank you very much, Mr. Chairman and Congressman Spratt. I'd have to say that—first I was going to say I was batting clean-up, but, given the distinguished set of speakers I'm following, I guess I'm batting ninth. I'll not bother you with every detail of my written testimony.

I think that the important long-run perspective that this committee has taken in the past and needs to take is that there is this very strong and powerful force out there in the world to make Government grow.

For example, an economist from the National Bureau of Economic Research studied the growth of government across all developed countries and found that, since 1960, the average country in the world saw the ratio of government spending to GDP increase by 8 percentage points. And, indeed, if you look at the chart for just about any country on earth, including our own, although we've had a pretty tame increase compared to some, basically government gets bigger, and that's the rule rather than the exception.

It is interesting to see why government gets bigger. Government gets bigger because, one, we usually see big spending increases in election years, and, two, we see big spending increases when surpluses come. And, since economies are cyclical natural, then sometime we have surpluses, sometimes we don't. The interesting thing is that the spending increases you see when you have surpluses or when you have more money coming in, they don't go back down when we hit hard times, and that's why the government grows over time.

So we have to think about ways as we meet our urgent needs each year to keep an eye on the long run and make sure that we're not eating into a long-run path that is not sustainable or desirable, and so I think it is clear—and I agree with the other members of this panel, those that preceded me, that we need to have some kind of realistic caps and PAYGO. Certainly those worked very well until recently, but, you know, starting around 1998, that stopped happening.

It is an interesting academic question. Why did the cap stop working? Was it because they became unrealistic, or was it because suddenly we had money to spend? Or did they become unrealistic because we had money to spend?

I think that the speed limit analogy is—we've been using lots of analogies on this panel today—is the appropriate one—that if you set a speed limit on a big, nice highway at 40 miles an hour, then everyone is just going to ignore it, and who knows how fast they are going to drive. But if you set a speed limit at, say, 65 and say that you are going to enforce it, then maybe you can get people to drive 70, or even 65 if you are in Singapore and you can really hit them hard if they go a little too fast.

But I think that it is a difficult problem deciding what the right speed limit is, and I would urge Mr. Chairman and Mr. Spratt to work together to find caps that are that—that are caps. They are the upper end of the range that you think is reasonable that anyone could possibly reasonably spend going forward, and then I think that you should try to conceive of ways to make sure that those caps stick, because I think that if you don't accomplish that then we are likely to be just another one of the many, many countries on earth that see the ratio of government to GDP just grow year after year after year.

With that, I'll stop.

Chairman NUSSLE. Thank you very much.

[The prepared statement of Kevin Hassett follows:]

PREPARED STATEMENT OF KEVIN A. HASSETT, RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE

Mr. Chairman, Congressman Spratt, and members of the committee, it is a great honor to be afforded the opportunity to speak with you today about important Budget Enforcement Act provisions and about the possible extension of the Act beyond Fiscal Year 2002.

In 1998, fiscal discipline set in motion years earlier began to pay tangible dividends. After running budget deficits for many decades, budget surpluses emerged. Many observers, myself included, feared at the time that budget surpluses would be short lived. In particular, in previous years deficits constrained the growth of government spending. It is difficult, but not impossible, to spend money that is not there. With cash piling up in Washington, the temptation to spend might be too much to resist.

Subsequently, we received good news and bad news. The good news was that the blossoming new economy outpaced even the most optimistic economist's expectations, and accordingly revenue surged. On the other hand, fears that spending would find a way to outpace expectations turned out to be well placed. Over the past 3 years, spending has surpassed the statutory limits that Congress and President Clinton agreed upon in 1997, by $199 billion. To put that number in perspective, it is more money than we spent on defense in a typical year at the height of the cold war, and more than total Medicare spending in 2000 (which was about $197 billion). Despite these spending increases, the revenue surge was significant enough that surpluses, and the temptation to spend them, remain.

Of course, not all spending is bad. Our elected officials are charged with the task of shepherding our resources wisely, and often they are up to the task. I am confident that no member of this august body intentionally wastes a penny. But over the longer term, the good intentions of our government officials pile up into astonishing liabilities for current and future taxpayers. Spending programs, once started, seldom end, and a thousand worthy projects cumulate into an economically unwise spending binge.

As a student of the interactions between the political and economic processes, I find the low frequency or longer term patterns of spending most astonishing. For example, Torsten Persson, a distinguished economist, recently wrote a paper for the National Bureau of Economic Research that documented the steady growth of government spending worldwide. For the average country, government spending increased over the past 40 years by about 8 percent of GDP. Clearly, there is an overwhelming force driving spending upward. Even in the U.S., where deficits for many years constrained the growth of government, spending ticked up over that time by about 1/2 percent of GDP.

How does spending advance? There are two forces that appear most powerful. First, when the economy booms and revenues surge, spending tends to ratchet upwards. Second, politicians tend to increase spending aggressively in election years. Outside of election years, and during downturns, these tendencies abate, but not enough to halt the inexorable rise of government.

Against this backdrop, it is clear that one of the most important duties of this body is to take a longer term perspective. To pursue new spending programs when they are worthy, but also to keep an eye on the long term growth of government. Deficits forced Congress to do this, but in an age of surpluses, self discipline must replace the power of necessity. If our experience of the past 3 years is any guide, self discipline alone is not enough.

This is why I support the extension of spending caps past 2002. If negotiated wisely with members of both parties, spending caps can allow for ample funds to support our priorities, but also draw a line in the sand limiting the growth of government. Spending caps can serve an important function. In particular, when unanticipated new challenges require action—-the broadband situation today comes to mind—-we must cut an older program that has outlived its usefulness to cover the cost of the new program. It is always difficult to eliminate a program, no matter how ineffective it may be. Spending caps can, in principle, force us to make the tough decisions.

Of course, the latest run-up in spending occurred while caps were present. Congress decided to ignore them. There is no guarantee that caps will work. But even in this climate of largesse, I believe that caps have served a useful purpose. By establishing what both parties thought a reasonable limit to spending might be ex ante, the caps have and will continue to allow voters to evaluate the performance of their elected officials against a clear marker. Voters in recent years have seen spending increase in programs that are often popular. On the downside, the spending caps were exceeded. Was the trade-off worth it? Voters will clearly decide, but even busted caps frame the debate in a way that is useful in our democracy. They remind everyone that trade-offs must be made.

Finally, I urge you to consider the uncertainty that results from our inability to commit to a long term spending plan. Currently, the CBO provides baseline projections under a predetermined set of rules: The capped baseline, the freeze baseline, and the inflated baseline. The differences between these projections can be large. The inflated baseline, for example, has a lower surplus than the others by more than a trillion dollars over the next 10 years. Nobody can possibly say which baseline will prove to be most reasonable, in part because there is so much uncertainty about government spending. As we begin to get our house in order in anticipation of long-run fiscal challenges facing our nation, knowing whether we will have that trillion dollars to work with is material. Instead, we do not know. If we were to extend caps, and amend them so that they are more effective, we could eliminate that uncertainty, and make the policy planning job significantly easier.

For these reasons, I urge this body to consider extending caps that are reasonable and safely at the top of the range of spending that you believe proper.

Chairman NUSSLE. Questions for this panel, Mr. Spratt.

Mr. SPRATT. Just a remark to Dr. Hassett. I'm curious about your reference to GDP percentages, because if you look back to the mid-1980's—I think it was 1984 or 1985—we were spending 23.5 percent of our GDP. That was the peak of the Reagan buildup in the military and a point when the GDP was somewhat subdued just coming out of recession. But if you look at this year's 18.5 percent, that's a huge decrease, and it has been partly attributable to the budget disciplines we've had with Gramm-Rudman-Hollings and then particularly the caps. They've worked to that extent.

In 1997 we plugged a few numbers into the BBA—the balanced budget agreement—just to get the balance in 2002. We had an estimate, for example, of spectrum sales that nobody in the room thought would ever be obtained. We plugged it in there anyway, and we had an unrealistic number. We followed Senator Domenici's number for Defense. Domenici had a Defense curb that went up, up, up at a very gradual rate, much less gradual than the 1980's, and then tapered off in 2001 and 2002, actually came down. Nobody thought that would happen, but we kind of bought into it and flattened out that tail a little bit and said, "If things don't get better, we may just have to crack down and adhere to these numbers."

But tacitly we also understood if things did get better, if the numbers did get better, we wouldn't try to track those draconian numbers. That's really what happened. In the meantime the caps lost their credibility because of that.

By 1998, when the picture looked much better, indeed, the budget situation was projected to be better in July 1997 as we were closing the agreement. We knew that if we didn't get it closed in a hurry that would undermine the glue that was holding things politically together, so we needed to go ahead and put it to bed as quickly as possible. Then, when the numbers not only got better, they got better and better and better. For God's sake, the estimators have been back every 6 months for the last 2 years and raised the estimate of the cumulative estimate of the surplus by nearly a trillion dollars. Gee whiz. Leon Panetta would have looked brilliant if he had had that kind of good luck, and Sabo, but they had to deal with a much, much more bleak forecast.

In any event, that's what has happened. These, though, have been very useful devices, and we've got to find out a way that we can still put them to good use for the future in an era when we hope we will continue to have surpluses.

Chairman NUSSLE. Mr. Clement.

Mr. CLEMENT. Mr. Chairman, thank you, and Mr. Spratt.

This is an excellent panel today, and I wish every member of the Budget Committee could have heard what was said today, and I sure wish you will share their testimony with the other members because I think this is information that they need to know in decisions that need to be made.

I wanted to ask Mr. Panetta and Carol real quick—I know you are long-time supporters of budget reform proposals, and I know you are for biennial budgeting. Do you still feel strongly about that, because that's something we're going to be bringing up shortly and I know not every member of this committee supports that but I do.

Mr. PANETTA. No. Actually, one of the first bills I introduced when I came into the Congress in the 1970's was to establish a biennial budget. I remember having long discussions with Bob Chimo and a lot of the Appropriations Committee about whether or not to do that.

I am a believer in that because I think that you need greater stability in the budget process. The year-to-year process I think creates just a tremendous confrontation that ultimately results in the kind of crisis management that I talked about. I think, you know, while I can't say it wouldn't happen in a 2-year budget, I think the chances are if you could set a path for a 2-year budget and try to establish numbers for that period of time, certainly I think we can do that now.

I just think that it would help implement not only the budget process, but, frankly, would give greater guidance to the Appropriations Committee, as well.

Mr. CLEMENT. And, Carol, how do you feel?

Ms. WAIT. I support biennial budgeting. The committee supports it. I would reiterate what I said earlier—if we had to choose one budget process reform over another, it would be a joint budget resolution. We think that the accountability that would come from having an agreed-on budget is perhaps the most important change you can make. But yes, I think movement toward a longer budget cycle that doesn't reopen decisions quite so frequently and leaves some time for oversight is a good thing. It's just not my number one priority.

Mr. CLEMENT. Now I need to ask Mr. Baseball over there a question. By the way, I got caught in that traffic jam and never made it there the other night, but I darned well tried.

Mr. SABO. I got caught in the jam and got there the time the game was starting, practically. An hour-and-a-half to get there.

Mr. CLEMENT. What I wanted to say to you, Mr. Sabo, just real quick, I wanted to ask you—I know Mr. Panetta said a while ago about PAYGO and caps, that we've got to do it on a bipartisan basis or it won't work at all. How can we do it now on a bipartisan basis?

Mr. SABO. I don't know. Whether they're bipartisan or whatever they are, they have to be real or they don't work.

To your first question on biennial budgets, I'm apprehensive. If they're done, they should—at times I start getting sympathetic toward the biennial budget by retaining annual appropriations, but then I'm reminded again this year new Presidents have terrible times putting budgets together the first year. You know, we're still waiting for the President's Defense budget, and everything has been late, and part of it was because of the late election, but that's not unusual. We find at least every fourth year it takes a while for the new President to get a budget together, and I'm not sure we'd want to have them hurried through a 2-year budget in that first year. But I think that's a reality the first year of most administrations.

Chairman NUSSLE. Thank you very much. Thank you to this panel. I have some questions that I'd love to ask, but we'll save that. I want to ask about joint resolution, particular to Mr. Panetta because of your very unique position, but we'll visit about that at some other point.

I thank this panel for their testimony. We have a vote on that we need to get to, so with that the committee hearing is adjourned.

[Whereupon, at 1:18 p.m., the committee was adjourned, to reconvene at the call of the Chair.]

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